

# A

# STRONG PAST-

# A BRIGHT FUTURE

Canada Mortgage and Housing Corporation

1999 Annual Report



HOME TO CANADIANS  
Canada

## CANADA MORTGAGE AND HOUSING CORPORATION IS CANADA'S NATIONAL HOUSING AGENCY

### Our Mission

We are committed to housing quality, affordability and choice for Canadians.

### Our Vision

We are a leader in housing. We meet or exceed client expectations through quality service and world-class products, supported by four key business pillars:

- > Housing Finance
- > Assisted Housing
- > Research and Information Transfer
- > Export Promotion

### Our Values

In pursuing our vision, we are committed to the following values:

- > **Value and Respect Employees:** All employees are treated fairly, diversity is respected and there is open and honest communication in the workplace.
- > **Client Focused:** We know our clients, listen to their needs and expectations and strive to meet them in a timely fashion with excellent service.
- > **Entrepreneurial:** We work in a businesslike manner with due regard for cost-effectiveness and continuous improvement. Responsible risk taking is essential and opportunities for partnership are sought.

Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call 1 800 668-2642.

CMHC offers a wide range of housing-related information. For details, call 1 800 668-2642 or visit our Web site at [www.cmhc-schl.gc.ca](http://www.cmhc-schl.gc.ca)

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**This year's theme, "A Strong Past – A Bright Future", is being depicted through a series of vignettes offering a retrospective of CMHC's activities and milestones throughout its 53-year history. The photographs of our many clients help illustrate that we are much more than a government agency. We are people working with people, helping to improve the quality of life for Canadians in communities across this country. CMHC is Home to Canadians.**



# M

## MESSAGE FROM THE CHAIRMAN

### OUR LEGACY IN HOUSING

#### **1946-1949: Responding to Needs**

Incorporated by an Act of Parliament, CMHC opens its doors in 1946, with a mandate to build low-cost housing, establish a home financing system, and develop the residential construction industry to accommodate rapid post-war growth.

#### **1950-1964: Improving Housing Conditions**

Mortgage loan insurance replaces "joint lending", and minimum standards are adopted for NHA-financed houses. The first federal/provincial public housing project is approved in St. John's, Newfoundland.

#### **1965-1985: Building Canadian Communities**

Housing policy becomes more closely aligned with community development. Site planning requirements are prescribed for NHA loans, and the quality of our living environment is improved through infrastructure and urban renewal programs. The Rural and Native Housing Program is introduced, along with other programs in support of homeownership, rental and non-profit housing.

#### **1986-1994: New Partnerships**

A new era of partnerships with the provinces and territories is complemented by partnerships with the private sector through the Canadian Centre for Public-Private Partnerships in Housing. To promote new research and share the results, the National Housing Research Committee is established with members from the public and private sectors.

#### **1995-2000: Expanding Opportunities**

Technological innovations improve the efficiency and cost-effectiveness of the mortgage insurance business and CMHC helps expand housing exports to markets around the world with the creation of the Canadian Housing Export Centre.

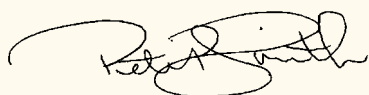
## MESSAGE FROM THE CHAIRMAN

As we look back on 1999, and on more than 50 years of serving Canadians, CMHC has reason to be proud. We see over five decades of meeting new challenges, adapting to changing needs and providing trusted advice and support to the public, the housing industry, and the Government of Canada. We see New Year's Day in 1946, when we first opened our doors with a mission to provide affordable homes for thousands of Canadian veterans returning from the Second World War. We see the pivotal role we played helping to ensure adequate and affordable housing through our mortgage insurance, our social housing assistance, and other targeted programs. We also see CMHC evolving from a builder and developer to a major financial institution, a valued source of information, and a partner in housing exports.

Through it all, our mandate has always been to increase Canadians' access to quality, affordable housing. We are Canada's national housing agency and an important partner of the Canadian housing industry. Through effective management and responsible governance, we fulfill public policy objectives, while remaining commercially viable in an increasingly competitive environment.

In recent years, we have become a more modern and streamlined organization, and today, we are better positioned than ever to respond to Canadians' changing housing needs. The amendments to the *National Housing Act* (NHA) and the *Canada Mortgage and Housing Corporation Act* that were approved in 1999, will enable us to respond even faster and more efficiently to new challenges and opportunities. The changes we have made to our system of Corporate Governance increase our accountability and further involve the Board of Directors in the corporate planning process and in the setting of strategic corporate directions. The improvements ensure that through our four business lines of Housing Finance, Assisted Housing, Research and Information Transfer, and Export Promotion, we will continue to provide thousands of Canadians with important products, services, and information.

As in the past, we will do this through the dedication of our employees, which has always been our greatest asset. This Annual Report is a testament to this fact. It records the talents, efforts and achievements of our staff in 1999. As CMHC's last report of the millennium, it also provides a retrospective of some of the key accomplishments of the Corporation over the past five decades. As we look back on these accomplishments and on our tradition of excellence and innovation, we are committed to work even harder in the year 2000 and beyond to make sure we are as active and relevant in the next 50 years as we have been in the last.



Peter R. Smith



# R

## REPORT OF THE PRESIDENT

### A HISTORY OF ADAPTATION

#### 1954

A new *National Housing Act* is passed, broadening CMHC's mandate to include mortgage insurance for Approved Lenders and a greater focus on quality housing.

#### 1973

The Federal Government shifts the emphasis from public housing to mixed income non-profit and cooperative housing and to neighbourhood improvements and housing renovations.

#### 1978

NHA amendments enable insured private mortgage financing and interest rate subsidies for social housing.

#### 1986

Federal social housing policy is refocused on households in core housing need and the role of the provinces is expanded.

#### 1996-1997

The 1996 Federal Budget announces changes to CMHC's mandate to allow its housing

finance business to operate on a more commercial basis and to transfer social housing administration to provinces and territories. In 1997, social housing agreements are signed with four provinces and one territory.

#### 1999

NHA amendments are passed to enable CMHC to compete more effectively in the mortgage insurance market and to better promote housing export products and services.

## REPORT OF THE PRESIDENT

In 1996, CMHC received a new mandate from the Government of Canada, challenging the Corporation to be more flexible, competitive and effective. In response to the challenge, all of us at CMHC entered into a transition period that included a review and examination of every aspect of our business. We looked at our core business lines over the last few years, and reassessed what we do and why. We looked at our organizational structure, our business operations, and our resource requirements. As a result of our analysis, we have made significant changes. We realigned our resources with the needs of the organization, we reduced the number of hierarchical levels, and we are increasingly working in teams.

While we still have a way to go, our achievements are impressive and our prospects are encouraging. CMHC is now a more modern, modest and effective organization, with a clearer sense of direction and purpose. The amendments to the NHA and CMHC Act that were passed in 1999 enable us to respond quicker, and in a more businesslike manner, to shifts in consumer demand and market conditions. They also allow us to expand our activities internationally through our Canadian Housing Export Centre. The amendments mark the end of our transition and the beginning of our future. They will allow us to continue to develop as a multifaceted company, and to improve on our successes in 1999 and over the last 53 years.

Some of our successes over the past year include helping some 233,000 households realize the dream of homeownership through our mortgage loan insurance. Technological advances in 1999, like the launching of **Webemili**, our Internet connection for our mortgage insurance approval program, promise to make our insurance applications faster and more efficient. We also issued \$12.9 billion in NHA Mortgage-Backed Securities, another record year, up some 42 per cent over 1998. Internationally, we worked with Trade Team Canada to expand housing exports in key foreign markets.

For those in need of assistance, we provided ongoing social housing support, helping hundreds of thousands of low-income households access safe, affordable housing. This support was complemented by our housing renovation programs, and by the activities of our Canadian Centre for Public-Private Partnerships in Housing, which facilitates the development of affordable housing, without direct government assistance.

In addition to our commercial and program activities, CMHC actively supported the Government of Canada's policy agenda in 1999. In November, we signed a new social housing agreement with the Province of Ontario, transferring the management of most of our social housing resources to the Province. We also signed an agreement with Nunavut earlier in the year. These agreements are similar to the ones already signed with five provinces and two territories and ensure that federal funds continue to be targeted to housing for low-income Canadians. The administration of over 50 per cent of CMHC's assisted housing portfolio has now been transferred.

In December, the Minister responsible for CMHC announced that, as part of the Government of Canada's overall strategy to address homelessness, our renovation programs targeted to low-income Canadians and victims of family violence would be enhanced by \$311 million for the next four years. The additional funding more than doubles the budget for renovation programs.

To ensure that CMHC and the Government of Canada receive the proper credit for these initiatives, and to strengthen our links with key client groups, we adopted a new branding and harmonization initiative that unifies our information and communications and gives Canadians a clearer picture of who we are and what we do.

We are very proud of these and our other achievements in 1999. Through this Annual Report, the fifth that I have overseen in my term as President of CMHC, I would like to reaffirm the Corporation's dedication to improving the quality, accessibility and affordability of housing for all Canadians. I would also like to personally congratulate all of the employees of CMHC for successfully concluding the transition of the Corporation, and for setting the stage for a long and prosperous future. Through your hard work, we are, and will continue to be "Home to Canadians".



Marc Rochon



# C

C O R P O R A T E   P R O F I L E

## CORPORATE PROFILE

### Changing the Way We Do Business

CMHC was created in 1946 to promote the construction of new houses, the repair and modernization of existing homes, and the improvement of housing and living conditions. Our mandate comes from the Parliament of Canada, and our rules of governance are set out in three federal Acts: the *Canada Mortgage and Housing Corporation Act*, the *National Housing Act* (NHA) and the *Financial Administration Act* (FAA).



On June 17, 1999, a major turning point for the Corporation and for Canadian housing policy was reached when Royal Assent was granted to Bill C-66, amending the CMHC Act and the NHA. These amendments enable CMHC to:

- > Respond quicker to shifts in consumer demand and market conditions;
- > Operate on a more commercial basis;
- > Better support Canadian housing exports; and
- > Consolidate programs and negotiate new partnerships and agreements.

### Corporate Objectives

Our four corporate objectives for 1999 were to:

- > Improve housing affordability and choice
- > Improve housing and living conditions for Canadians
- > Support market competitiveness, job creation and housing sector well-being
- > Be a modern and visible representative of the federal government

We worked to realize these objectives, through four main areas:

#### *Housing Finance*

Our housing finance activities centre around giving Canadians access to affordable financing choices. The main tool for achieving this goal is our mortgage loan insurance program which has helped many Canadians realize their dream of owning a home. Our mortgage insurance insures Approved Lenders against borrower default, in turn allowing Canadians to access high-ratio mortgages at the lowest-possible rates anywhere in Canada. CMHC Mortgage-Backed Securities provide a low-cost source of mortgage funds through secondary mortgage markets. To help create affordable housing, we form partnerships with public, private and non-profit organizations, often with an emphasis on innovative financing.

#### *Assisted Housing*

For those Canadians who have difficulty meeting their housing needs on their own, CMHC plays a key role in helping them gain access to safe, affordable housing. On behalf of the Government of Canada, we provide annual housing support to hundreds of thousands of low-income households in communities across the country. This important assistance is delivered through long-standing partnerships with the provinces and territories — partnerships that we are currently strengthening through new social housing agreements.





Innovative CMHC initiatives such as Homegrown Solutions and our Canadian Centre for Public-Private Partnerships in Housing, help foster community-based housing solutions that address the need for affordable housing. We also work in partnership with public, private and non-profit organizations as well as other levels of government to develop innovative financing and to increase the supply of affordable housing in Canada. In partnership with First Nations, we support capacity building leading to self-governance and to the development of healthy, sustainable housing.

#### *Research and Information Transfer*

Through our research, we encourage innovation in housing design and technology, community planning, housing choice and finance. We offer a wide variety of information products to help Canadians make informed purchasing and business decisions. We provide comprehensive market analysis to help housing markets work more efficiently, to the benefit of consumers and industry alike.

#### *Export Promotion*

We work closely with industry and other Team Canada members to promote the excellence of the Canadian housing system in foreign markets, increasing export opportunities for housing products, services and expertise. We open doors for export business by bringing down trade barriers; supporting the industry's export promotion efforts through trade shows and missions; helping the industry by gathering market intelligence; and encouraging more firms to export. Through our Canadian Housing Export Centre, we provide experience and skill to help other countries establish the institutional infrastructure needed to meet their housing needs.

#### **Review of Accounts**

CMHC's financial operations are managed under four separate accounts. The **Minister's Account** funds social and assisted housing programs. The **Corporate Account** encompasses loans and other investments, the results of residual lending activities and housing-related services. The **Mortgage Insurance Fund** provides insurance for lenders against borrower default on residential mortgage loans. The **Mortgage-Backed Securities Guarantee Fund** guarantees the payment of principal and interest for investors in securities based on insured mortgages.





# E

ECONOMIC OVERVIEW

## ECONOMIC OVERVIEW

### Housing and the Economy

The Canadian economy continued to expand at a brisk pace in 1999, growing 4.2 per cent. There were 394,000 new jobs created last year; a growth rate of 2.8 per cent. This was slightly higher than the pace set in 1998. Of particular significance to the housing market was the expansion of full-time employment at a rate of 3.4 per cent, as growth in part-time positions decreased in comparison to previous years. There were 87,000 fewer unemployed persons during 1999, bringing the unemployment rate down to 6.8 per cent by the end of the year.

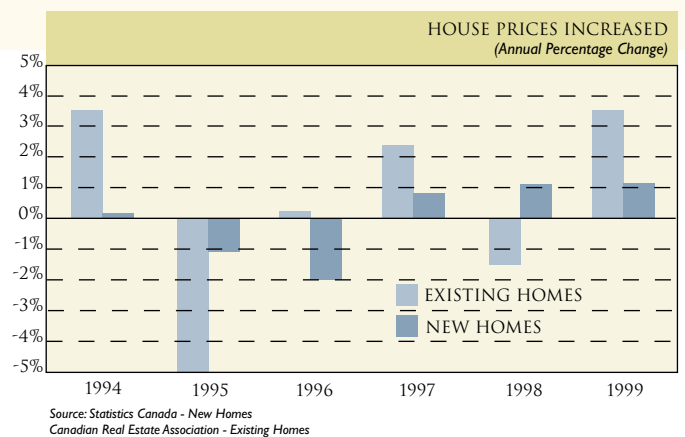
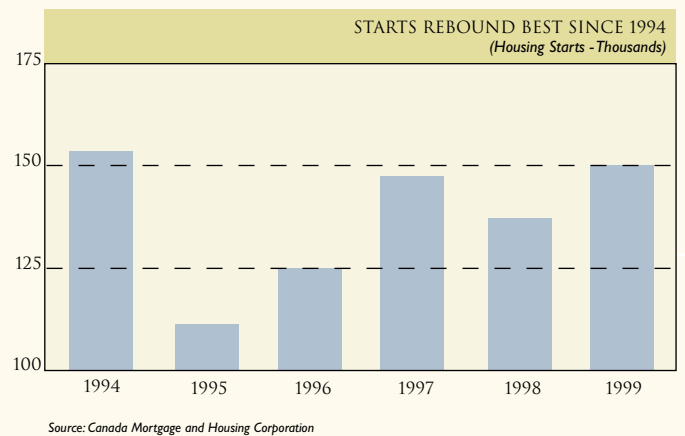
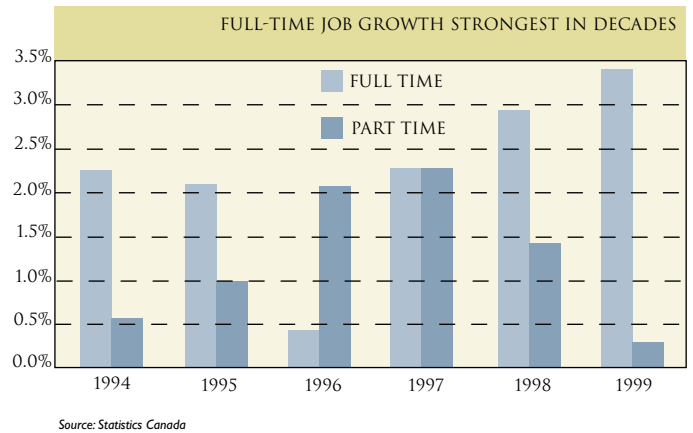
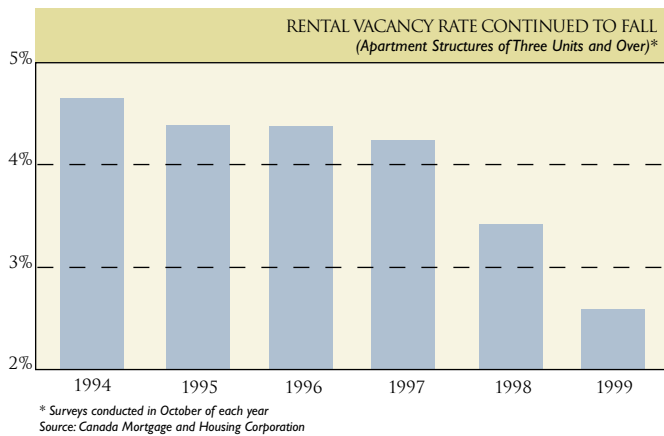
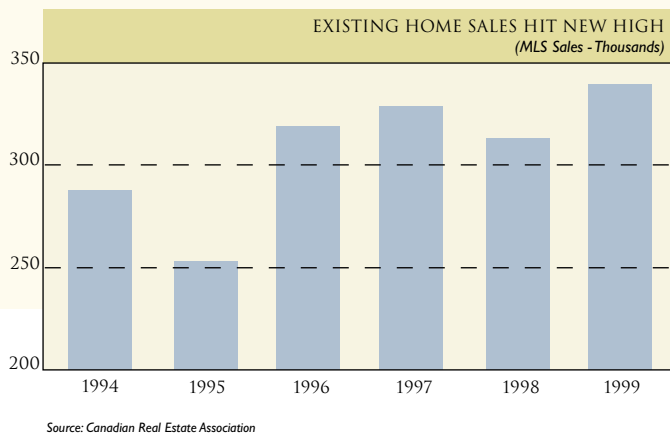
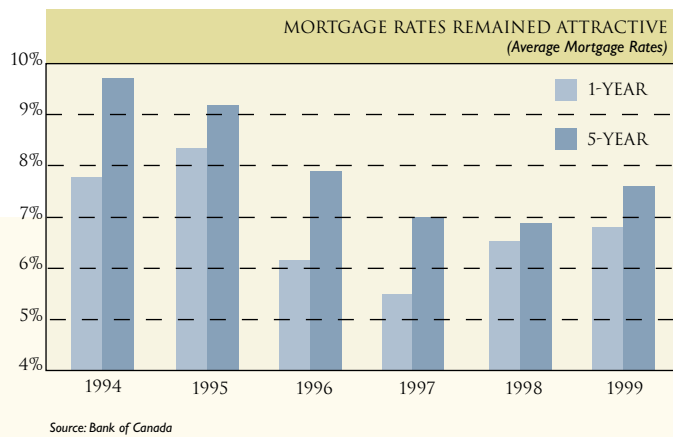
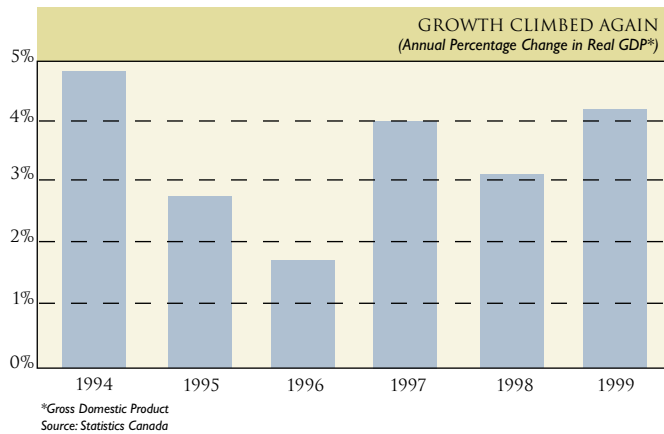
The improved economic performance of 1999 was marked by an increase in consumer confidence, and gradual improvements in income, most commodity prices, and the value of the Canadian dollar. Oil prices, in particular, increased substantially towards the end of the year. However, prices for agricultural products remained weak.

The generally positive conditions helped to stimulate the housing market in 1999. Housing starts in Canada totaled 149,968 in 1999, up 9.1 per cent from 1998 and the best showing since 1994. All provinces except British Columbia, Alberta and Newfoundland registered an increase in the level of starts compared to 1998. Nova Scotia and Ontario, in particular, had very strong increases in the number of starts recorded. Multiple housing led the way with a 13.3 per cent increase in the number of units built, while single-detached residences grew by 6.7 per cent. Mortgage rates in 1999 were higher than during

the previous two years, but remained low compared to historical levels.

Existing home sales experienced a record 335,735 transactions, up 6.7 per cent from 1998. Prices of existing homes increased by 3.7 per cent, while those for new homes remained similar to those of 1998. Rental supply continued to decline throughout Canada, with the 1999 vacancy rate falling to 2.6 per cent.







# M

## MANAGEMENT DISCUSSION AND ANALYSIS

### CHANGING PROGRAMS AND ACTIVITIES

#### 1946

The Integrated Housing Plan becomes part of the NHA, enabling CMHC to provide low-cost housing for veterans.

#### 1960

The Municipal Infrastructure Program is introduced, allowing CMHC to grant loans to assist municipalities in the construction or expansion of waste water infrastructure.

#### 1973

The Assisted Home-Ownership Program provides loans and grants to help low-income families buy houses, and the Residential Rehabilitation Assistance Program (RRAP)

helps thousands of low-income Canadians live in safer, more secure homes.

#### 1982-1983

Short-term grant programs such as the Canadian Homeownership Stimulation Plan and the Canadian Home Renovation Plan were introduced, while the Non-Profit program for Native Housing was enriched.

#### 1986

CMHC begins offering Mortgage-Backed Securities, an important source of funds for residential mortgages that help make housing more affordable.

#### 1996

CMHC introduces **emili**, our automated mortgage loan insurance approval system. Cutting the time required to obtain financing from days to seconds, **emili** sets a new standard for speed and efficiency in client service.

#### 1999

CMHC introduces a new component of RRAP to convert non-residential property to housing for low-income Canadians, as part of the Government of Canada's overall strategy to address homelessness.

## MANAGEMENT DISCUSSION AND ANALYSIS

CMHC is engaged in numerous activities in support of its four corporate objectives. This section describes our activities and lists our accomplishments in 1999, in relation to the objectives we set out for ourselves in our 1999-2003 Corporate Plan.

### Objective 1: Improve housing choice and affordability

Our principal focus is to help Canadians access a wide variety of quality, affordable homes. We work towards this goal through a variety of means, including:

#### Mortgage Insurance

One of the most important ways CMHC makes housing more affordable and accessible is through mortgage loan insurance. Since we introduced our mortgage insurance in 1954, we have helped one in three Canadians obtain financing for their homes. Mortgage insurance also helps landlords and developers access low-cost financing, which helps ensure a supply of affordable rental units.

Our mortgage loan insurance is available across Canada. By insuring Approved Lenders against the risk of borrowers defaulting on their mortgages, lenders are able to offer high-ratio loans at substantially lower rates. This makes it easier for more Canadians to buy the home of their choice.

#### MORTGAGE INSURANCE FUND (MIF)

	1999 Actual	1999 Planned	1998 Actual
Assets (\$M)	4 023	4 032	4 158
Net Income after Tax (\$M)	310	12	152
Unappropriated Surplus (\$M)	85	0	133
Insurance in Force (\$M)	187 392	207 600	182 450
Units Insured	376 200	385 968	476 669

##### 1999 Results:

The Mortgage Insurance Fund recorded a net income after tax of \$310 million in 1999 compared to a planned net income of \$12 million.

Due to better-than-expected economic conditions, net claims paid were \$280 million versus a plan of \$486 million. Increased business volumes led to higher-than-expected revenues of \$855 million against \$828 million planned. Operating expenses of \$96 million were slightly less than the \$112 million planned.

In 1999, the Corporation achieved an annual total return of -1.55 per cent on the MIF investment portfolio, compared to the -1.14 per cent by the benchmark market index. Since the introduction of the new benchmark in July 1998, the Corporation has achieved an annual total return of 2.28 per cent on the MIF investment portfolio, compared to 2.20 per cent by the benchmark market index.

The insurance-in-force totaled \$187.4 billion as at the end of 1999. The aggregate outstanding amount of all loans for which an insurance policy is issued may not exceed \$250 billion. The long-term solvency of the Mortgage Insurance Fund has been confirmed by an actuarial valuation as at September 30, 1999.

#### Mortgage-Backed Securities

CMHC's **NHA Mortgage-Backed Securities (MBS)** are an alternative source of low-cost funding for residential mortgages. Under the program, lending institutions pool their mortgages and issue securities to investors at competitive interest rates. For a fee, CMHC provides a "timely payment guarantee", which ensures that investors will be paid on time and in full in the event of issuer default. Nearly 6 per cent of all mortgages in the Canadian residential mortgage market are now funded through the MBS program, and the securitization market is expected to continue to grow.

## MORTGAGE-BACKED SECURITIES GUARANTEE FUND (MBSGF)

(MILLIONS OF DOLLARS)	1999	1999	1998
	Actual	Planned	Actual
Assets	102	92	75
Net Income after Tax	11	10	8
Surplus	55	55	44
Securities Issued	12 854	10 000	9 076
Securities Outstanding	27 691	20 800	19 000

### 1999 Results:

In 1999, the Mortgage-Backed Securities Guarantee Fund recorded a net income after tax of \$11 million, exceeding the planned level of \$10 million. The actual includes earned guarantee fees of \$11 million against the \$10.3 million planned, and application fees of \$2 million against the \$1.5 million planned.

MBS issuance volumes rose to \$12.9 billion against the \$10.0 billion planned.

In 1999, the Corporation achieved an annual total return of -1.47 per cent on the MBSGF investment portfolio, compared to the -1.14 per cent by the benchmark market index. Since the introduction of the new benchmark in July 1998, the Corporation has achieved an annual total return of 2.27 per cent on the MBSGF investment portfolio, compared to 2.20 per cent by the benchmark market index.

A 1993 actuarial valuation concluded that the Mortgage-Backed Securities Guarantee Fund is in a strong financial position. Given the ongoing financial health of the fund, another valuation has not been conducted since.

## Programs and Partnerships

Through CMHC's social housing programs, many low-income families and Canadians with special needs had access to safe and affordable housing in 1999 — homes that would otherwise have been beyond their reach. Working with other government partners, community housing organizations and First Nations, we provided approximately \$1.9 billion in federal financial support in 1999, benefiting 639,200 low-income households across the country.

## MINISTER'S ACCOUNT

	1999	1999	1998
	Actual	Planned	Actual
Social Housing Units Committed	20 850	9 112	13 700
Estimated Households Assisted	639 200	649 500	643 750
Grants, Contributions, Subsidies (\$M)	1 886	1 899	1 841

### 1999 Results:

Expenditures on grants, contributions and subsidies, including related administration and delivery costs, were \$1,886 million. In 1998, these expenditures were \$1,841 million. The 1998 Federal Budget included funding for a 5-year extension of \$50 million per year for 1998 to 2002, for the continuation of the Residential Rehabilitation Assistance Program, Emergency Repair Program, Shelter Enhancement Program, and Home Adaptations for Seniors' Independence.

Through the **Shelter Enhancement Program**, we work with other government departments and non-profit organizations to assist women, children and youth who are victims of family violence. CMHC's role in this interdepartmental initiative consists of providing capital funding to renovate, repair and build new shelters. The program helps improve the safety and security of those escaping family violence.

CMHC is also engaged in numerous partnership activities through our **Canadian Centre for Public-Private Partnerships in Housing (CCPPPH)**. Acting as both a catalyst and a source of advice, the Centre brings together the public and private sectors, non-profit organizations and private citizens to develop affordable housing projects without the need for government subsidies. The success of these projects often depends on some form of innovative financing facilitated by CMHC. The Centre then publishes information about the most successful ideas, allowing other communities to benefit from the experience.

**Affordability and Choice Today (ACT)** and **Homegrown Solutions** are two other programs that help increase the supply of affordable housing in Canada. ACT promotes regulatory reform at the municipal level, while Homegrown Solutions helps foster community-based housing solutions that address local affordable housing needs.

Improving housing conditions for First Nations communities is another key priority for CMHC. *Gathering Strength*, the Government of Canada's Aboriginal Action Plan, lists housing and capacity building among its most important goals. We contribute to this by working with First Nations organizations, helping them to develop the required skills to manage their own housing programs. This includes facilitating the development of First Nations housing institutions, focusing on planning and design, housing finance and administration.

### Research and Information Transfer

Through our research and information transfer activities, we support improvements in housing affordability and develop solutions to the housing challenges facing groups with distinct housing needs. We work to help respond to the housing needs of persons with disabilities, the elderly and Aboriginal Peoples. Investigating the complex causes and consequences of homelessness also continues to be a research priority.

### ESTIMATED HOUSEHOLDS ASSISTED THROUGH EXISTING AGREEMENTS IN 1999

	CMHC Administered Agreements	Provincially- Territorially Administered Agreements	Total
Total - 1999	155 350	483 850	639 200
Total - 1998	208 250	435 500	643 750

### ESTIMATED HOUSEHOLDS ASSISTED THROUGH NEW COMMITMENTS IN 1999

NUMBER OF UNITS	1999 Actual	1999 Planned <sup>1</sup>	1998 Actual <sup>2</sup>
<b>Subsidy Programs</b>			
On-Reserve Non-Profit	1 050	939	550
<b>Repair Programs<sup>3</sup></b>			
Residential Rehabilitation Assistance Program			
Homeowner	5 900	2 631	3 650
Disabled Homeowner	1 000	1 093	800
Rental and Rooming House	6 150	1 090	4 500
<b>Sub-Total Off Reserve</b>	<b>13 050</b>	<b>4 814</b>	<b>8 950</b>
On-Reserve	700	759	400
Emergency Repair Program	2 700	622	1 600
Home Adaptations for Seniors' Independence	2 000	1 772	1 300
Shelter Enhancement Program	1 350	206	900
<b>Total</b>	<b>20 850</b>	<b>9 112</b>	<b>13 700</b>

<sup>1</sup> 1999 actuals are higher than plan numbers as the plan was finalized prior to an additional \$50 million program extension for the Residential Rehabilitation Assistance Program, Emergency Repair Program, Shelter Enhancement Program and Home Adaptations for Seniors' Independence.

<sup>2</sup> Due to changes in delivery, figures reported for the "On-Reserve" line items reflect only 9 months of activity for calendar year 1998. 1999 figures are for 12 months.

<sup>3</sup> Households served through provincial renovation programs cost-shared by CMHC are included above.

## IMPROVE HOUSING CHOICE AND AFFORDABILITY: OUR GOALS AND ACHIEVEMENTS

### STRATEGIC GOALS

### RESULTS ACHIEVED IN 1999

#### Increase Housing Choice for Canadians

**Continue to make housing finance more accessible and affordable** through our NHA mortgage-loan insurance program and Mortgage-Backed Securities products.

**Provide funding for a substantial number of new on-reserve homes**, and continue existing support of the Aboriginal youth initiative.

**Build on our Family Violence initiative** to help more Canadians when they need our assistance most.

**Identify challenges and investigate solutions** for groups with distinct housing needs.

#### Mortgage insurance

> Insured 282,746 mortgages for a total of over \$34.5 billion in loans insured.

#### Mortgage-Backed Securities

> Set a record for the third consecutive year, guaranteeing over \$12.9 billion in MBS.

#### Housing for First Nations communities

- > Signed the first ever Memoranda of Understanding for First Nations organizations to deliver and administer on-reserve housing with the Keewatin and Treaty 7 Tribal Councils.
- > For Aboriginal youth living on reserves and in Inuit communities, we invested a further \$1 million in subsidies for organizations that hire and train young people in the housing field.
- > Provided funds for First Nations communities to build 1,050 new houses and renovate or repair another 700 existing homes.
- > First Nations became more directly involved in the management of housing programs and participated with CMHC in the ongoing development of First Nations technical services capacity.

#### Helping victims of violence

> Worked through the **Shelter Enhancement Program** to improve safety, security and facilities at some 100 shelters across Canada.

#### Research results

> Presented housing options for seniors at the Global Conference on Aging.

#### Addressing homelessness

> Held a series of regional and national roundtables with private/public agencies to discuss best practices for addressing homelessness. Produced reports to share successes with other groups working on this issue.

#### Improve Housing Affordability

**Provide federal financial support** to ensure low-income Canadians have access to decent, affordable homes.

#### Supporting social housing across Canada

- > Contributed approximately \$1.9 billion in federal financial support to some 639,200 households across the country.
- > An additional \$300 million is to be delivered over 5 years, as announced in 1998, and a further \$311 million announced in 1999 over 4 years directed to low-income Canadians for renovations and adaptations.
- > One of the largest bond issuers in Canada, CMHC drew on its status as a Crown corporation to raise over \$1.3 billion at a reduced rate for lower-cost social housing.

**Support partnerships at the local, regional and grassroots levels**, and the creation of affordable community housing through innovative new financing techniques.

**Fostering community partnerships**

- > Through the **Canadian Centre for Public-Private Partnerships in Housing**, CMHC helped secure financing for more than 4,100 housing units and provided funds to create proposals for another 3,200 housing units across Canada. The Centre also worked closely with groups committed to the development of affordable housing such as The Calgary Homeless Foundation and Vancouver's Downtown Eastside Residents Association (DERA).
- > Extended **Homegrown Solutions** grassroots funding for a further 3 years. By the end of the year, 16 new innovative proposals had received approval to proceed.

**Identify and share information** on innovative regulatory approaches, affordable housing trends and successful decision-making tools wherever possible.

**Reducing the cost of housing through innovation**

- > Assisted 14 new projects through the **Affordability and Choice Today (ACT)** initiative, and published *ACT in ACTION: Lessons Learned* to identify elements of successful projects that have led to positive change. CMHC funding for ACT was extended for an additional 3 years.

## Objective 2: Improve housing and living conditions for Canadians

Our quality of life depends in large part on the quality of our housing and living environments. CMHC supports housing quality by:

### Investing in Renovation and Repair

CMHC provides funding for a range of renovation and repair programs that help ensure that low-income households, the homeless and those at risk of becoming homeless have access to safe, secure housing.

One of the most successful of these programs is the **Residential Rehabilitation Assistance Program (RRAP)**. RRAP provides forgivable loans to improve the health and safety of homes belonging to, or rented by, people with low incomes. In addition, RRAP funds may be used to make homes more accessible and safe for people with disabilities. With the extension of this program and the additional funding provided by the Federal Government, CMHC is able to contribute to the repair and preservation of much needed affordable homes for these Canadians.

Other CMHC programs include the **Emergency Repair Program (ERP)**, which provides emergency grants for homeowners in rural or remote areas to ensure the safety of their homes. **Home Adaptations for Seniors' Independence (HASI)** helps low-income elderly Canadians make their homes more comfortable and easier to use as their needs and requirements change.

### Research and Information Transfer

With our industry, government, and non-profit partners, CMHC plays a leadership role researching every aspect of housing technology and performance. Our research and information transfer team makes sure that the information we produce reaches the people where it will do the most good. We target our products to specific client groups, such as consumers, housing professionals, industry and governments. With the right information, these clients are able to make better and more informed decisions, leading to an overall improvement in the quality of our housing and living conditions.

### Spreading the Word about Healthy Housing™

For over a decade, CMHC has been researching and designing homes that protect occupant health while preserving the natural environment. **Healthy Housing** is our hallmark initiative for achieving these dual objectives. Healthy Housing makes the most efficient use of available resources in a manner that is both affordable and adaptable to changing needs. Over the past 12 months, we stepped up our efforts to spread the word about Healthy Housing, and to tell Canadians about the links between housing and health.

On the technology side, we helped launch the **Canadian Centre for Housing Technology (CCHT)**, the first facility of its kind in the world. The CCHT is a \$1.5 million partnership between CMHC, the National Research Council and Natural Resources Canada. The Centre works with members of the construction industry to showcase Canadian housing technology and systems, and to accelerate the commercialization of innovative, sustainable, efficient and affordable housing technologies. Founded on the premise that “the house works as a system,” the CCHT’s two Research Houses are equipped with sophisticated monitoring equipment to evaluate the impact of innovative products and construction techniques in a “real life” setting. The CCHT also includes an InfoCentre and a demonstration of a national award-winning design: CMHC’s **FlexHousing™** concept — housing that can adapt to a family’s needs as they change over time.

## IMPROVE HOUSING AND LIVING CONDITIONS FOR CANADIANS: OUR GOALS AND ACHIEVEMENTS

### STRATEGIC GOALS

### RESULTS ACHIEVED IN 1999

#### Increase Awareness and Acceptance of Healthy Housing and Sustainable Communities

**Support and promote Healthy Housing** approaches and technologies through research, demonstrations, disseminating information and fostering community partnerships.

#### Informing Canadians about the benefits of Healthy Housing

- > We delivered **Healthy Housing** seminars in 34 communities across Canada and participated in projects like the Healthy Housing demonstration with the Roseau River First Nation in Winnipeg.

**Increase awareness of the benefits of sustainable planning**, including its contribution to lowering the cost of housing.

#### Research and demonstration

- > We launched the **Canadian Centre for Housing Technology**, in partnership with Natural Resources Canada and the National Research Council.
- > We completed research on urban transportation issues, municipal financing techniques, and the effects of development charges on urban form.

#### Improve the Condition and Technical Performance of Housing

**Continue to address the needs of Canadians for renovations, emergency repairs and home adaptations**, both on- and off-reserves and in small communities and rural areas.

#### Renovation and repair programs

- > The **Residential Rehabilitation Assistance Program (RRAP)** resulted in some \$80 million in forgivable loans to low-income Canadians for renovation and repairs, and a further \$7 million to modify the homes of Canadians with disabilities. In total, RRAP and associated provincial cost-shared programs helped improve living conditions in over 13,050 off-reserve households, while some 4,700 households were assisted under our **Emergency Repair Program (ERP)** and **Home Adaptations for Seniors’ Independence (HASI)**.

**Research, demonstrate and communicate promising new construction and operating practices** that address such issues as noise, building envelope integrity and indoor air quality.

#### Promoting best practices to consumers and industry

- > Useful tools and information to improve the quality of housing were provided to consumers and industry through publications such as the *Homeowner’s Manual*.
- > We held one-day seminars in different cities entitled *Advanced Construction Details*. These seminars were based on CMHC *Best Practice Guides* aimed at improving construction practices and building quality.

**Address ways of improving building performance** in cooperation with new and existing partners in both the public and private sectors.

#### Helping homeowners

- > To help homeowners with leaky condominiums in British Columbia’s rainy Lower Mainland, CMHC researched and developed the *Best Practice Guide: Wood-Frame Envelopes in the Coastal Climate of British Columbia*.
- > We produced information for Canadians on Year 2000-related issues in houses and apartments.

### **Objective 3: Support market competitiveness, job creation and housing sector well-being**

Canada's housing sector is a vital and vibrant part of our national economy. CMHC plays a critical role in helping this industry flourish through:

#### **Faster and More Efficient Service**

CMHC made several important strides in increasing the efficiency of obtaining mortgage financing. Our automated mortgage insurance approval process (**emili**) reduces the time needed to approve a mortgage insurance application to literally seconds. With our technological advancements, lenders can now access the electronic system via on-line computer mainframe, desktop personal computer, over the Internet or by fax.

With the 1999 amendments to the *National Housing Act*, we are in the process of making significant changes to our **Mortgage-Backed Securities** program. To keep pace with the evolving needs of the financial marketplace, our centre for Mortgage-Backed Securities continues to develop and implement improvements that streamline the process of issuing these securities, and to advance our groundbreaking "second generation" mortgage securitization product.

#### **Expert Market Analysis**

CMHC's Market Analysis Centre is Canada's leading source of reliable and accurate housing market information. With the breadth of its statistical data, market analyses and consumer profiles, the Centre provides detailed trend reports and forecasts to help our clients anticipate changes in the national and local housing markets. We provide the information our clients need to take full advantage of emerging opportunities and to help their businesses grow.

#### **Export**

Through our **Canadian Housing Export Centre (CHEC)**, CMHC works with the housing industry and our Trade Team Canada partners to promote Canadian housing expertise and increase the export of Canadian housing products and services. With its presence, CMHC assists the housing industry to increase exports through support and strategic matchmaking at missions and trade shows around the world. We conduct research into foreign markets, providing industry members with crucial information on new export opportunities. In cooperation with industry representatives and Team Canada partners such as the Department of Foreign Affairs and International Trade, Industry Canada, and other federal and provincial export agencies, CHEC helps develop strategic directions for the future of Canadian housing exports. Representing the Government of Canada, CMHC also plays a significant role in ensuring successful government-to-government relations in housing.

## SUPPORT MARKET COMPETITIVENESS, JOB CREATION AND HOUSING SECTOR WELL-BEING: OUR GOALS AND ACHIEVEMENTS

### STRATEGIC GOALS

### RESULTS ACHIEVED IN 1999

#### Support Competition in the Mortgage Market

**Enhance the competitiveness of our mortgage securitization products** by improving and expanding the MBS program.

**Make the pricing of our existing mortgage insurance products more attractive** in accordance with changes in the financial marketplace and with the needs of our clients in the financial industry.

**Reduce operating costs and the potential for claims losses, and increase investment returns** on assets in our MIF and MBSGF.

#### Better service at a lower cost

> The process of issuing our **Mortgage-Backed Securities** product was streamlined.

#### Improving our profitability

> We implemented a new pricing policy and other changes in the underwriting approach of our **Existing Rental Mortgage Insurance** program to improve profitability and better serve client needs. Rental volumes insured in 1999 rose by 18 per cent over the previous year.

#### Delivering service more efficiently

- > Technological enhancements (**Webemili** and **Faxemili**) were implemented to increase the efficiency of obtaining financing by making mortgage insurance approval available through the Internet and by fax.
- > The **Electronic Portfolio Insurance Product (EPIP)** was added to our family of electronic processing products. EPIP has redefined the standards for speed and efficiency in delivering portfolio insurance by automating the portfolio insurance process. In addition, EPIP automatically ensures that the risks are balanced in the pools of loans submitted, thereby increasing quality assurance and reducing the risk to CMHC.
- > The proportion of insurance applications approved through **emili** doubled from 1998 to 1999.
- > The application fees for loans processed through **emili** were reduced in 1999.

#### Improve the Efficiency of the Housing Market

**Work to better understand changes in the housing finance needs of Canadians and industry**, identifying emerging difficulties or opportunities, and improving our responsiveness as a Corporation.

**Enhance CMHC's leadership role in market analysis**, redesigning our current housing market information systems to better meet evolving demands.

**Create and market new or improved information products** on housing markets and conditions in response to emerging new market possibilities and changing client needs.

#### Market research

> Produced research on *Residential Mortgage Financing Activities Among Consumers* in partnership with the Canadian Institute of Mortgage Brokers and Lenders (CIMBL).

#### Sharing our market analysis expertise

- > Developed and implemented the **Market Analysis Electronic Marketplace** to disseminate market analysis publications, tables and time series electronically. By ordering and receiving housing market products on-line, our clients are able to use them in a more timely fashion — often before printed versions are available.
- > Held **Housing Outlook Conferences** for housing industry decision-makers in 12 cities, providing more than 1,700 clients with information about today's significant housing trends and potential future developments.

#### The main source for Canadian housing information

- > Our **Canadian Housing Information Centre**, the most comprehensive housing library in Canada and one of the most important in the world, answered more than 36,000 requests for information, distributed a total of some 102,400 reports, books, brochures, etc., on housing and housing-related topics, and handled an average of 2,594 calls per month.
- > To assist researchers, the housing industry and residential consumers in undertaking housing research, the Centre's online catalogue, containing some 70,000 documents, was made available on the Internet in 1999.

## Support Canadian Housing Exports

**Enhance and improve our support for Canadian housing exports** through a country-focused approach that directs our efforts and resources to those areas of the world where the Canadian housing industry has the greatest potential for success.

**Develop partnerships with industry and other Trade Team Canada members** and work within Canada's International Business Development Strategy initiative to identify new opportunities for supporting or extending Canadian housing exports.

### Becoming more client-driven

- > Formed a **Canadian Housing Export Advisory Council** to ensure that the Canadian Housing Export Centre remains client-driven and client-focused.

### Focusing on key markets

- > Independently and as a member of **Trade Team Canada**, CMHC led trade missions to Germany, Chile, South Korea, China and Poland, and supported the housing industry at key trade shows in the United States and Japan.
- > In Russia, the West Bank and Gaza, Mali, Trinidad and Tobago, and Gabon, CMHC assisted national governments and housing agencies with reforms to their finance systems and other housing market challenges.

### Supporting industry abroad

- > Played a significant role as the representative of the Government of Canada, including formalizing 2 agreements in **Memoranda of Understanding** with Korea and China.
- > Worked to help harmonize foreign codes and standards and obtain product certification to smooth the way for increased Canadian exports in Germany and Russia.

### Bringing Canadian housing expertise to the world

- > Formed an **International Training Team** who traveled to Chile, Iceland, Germany, Poland and China to deliver seminars and training sessions.

## Objective 4: Be a modern and visible representative of the Federal Government

With our transition period complete, CMHC is better positioned to implement the government's policies and priorities in a flexible and responsive manner; while becoming a more effective and modern organization.

### Supporting the Government's Policy Agenda

In the area of social policy, CMHC works with provincial and territorial governments to address issues of importance to Canadians, such as homelessness, Aboriginal housing, and the supply of affordable rental housing. We continued to work with our partners in all levels of government to help translate policy objectives and priorities into practical housing solutions.

For example, in December 1999, the Minister responsible for CMHC, in conjunction with the Federal Coordinator on Homelessness, announced that the Government of Canada would invest \$753 million in an approach to help alleviate and prevent homelessness across Canada. The initiative focuses on the partnerships that are needed with all levels of government, and the private and voluntary sectors to effectively reduce and prevent homelessness. As part of this initiative, CMHC's housing renovation programs targeted to low-income Canadians and victims of family violence have been enhanced by \$311 million for the next 4 years. This includes rental and rooming house accommodation for people at risk of homelessness. New program flexibility will also allow for the conversion of non-residential buildings into housing for low-income Canadians. Our Shelter Enhancement Program was also expanded to include youth as victims of family violence. The additional funding more than doubles the budget for renovation programs.

To streamline management and administration of the social housing stock, we continue to negotiate the transfer of responsibility for the management of federal social housing resources to the provinces and territories. This results in more cost-effective delivery of social housing services and the potential to use savings to support new social housing activity under provincially designed programs. Agreements are now in place with nine provinces and territories, accounting for the transfer of over 50 per cent of CMHC's social housing portfolio.

## Canada's National Housing Agency

As Canada's national housing agency, we are an important source of housing-related information. We are continually conducting research with our key clients to better understand their needs. Our new *Corporate Communications and Marketing Framework* informs our clients about our products and services, and ensures that our communications and marketing efforts are coordinated and targeted effectively.

## Living Our Corporate Values and Preparing for the Future

In order to provide value-added services and programs for Canadians, CMHC depends on its people to be representative of Canadian society and to actively embrace the Corporation's core values of client service, entrepreneurship, and valuing and respecting individuals. We have modernized our human resources policies to encourage a more integrated and flexible human resources system that is supportive of a mobile and resilient workforce. Employees will find it easier to access tools to help them develop competencies, to link their performance to the success of their business groups, and to be competitively compensated for their contribution.

## Efficient and Effective Practices

In 1999, CMHC received the results of the Special Examination conducted by the Office of the Auditor General (OAG). Concluding that there were no significant deficiencies in either systems or practices, in the presentation of the report, the OAG congratulated CMHC on the fact that this was the third time in as many OAG examinations that the Corporation received a clean bill of health, or a "clean opinion."

## CORPORATE ACCOUNT

### (MILLIONS OF DOLLARS)

	1999	1999	1998
	Actual	Planned	Actual
Assets	17 921	17 997	17 818
Net Income (Loss) after Tax	(5)	(0.8)	1
Real Estate Sales	11	7	62
Gain (Loss) on Real Estate	(4)	2	(2)
Net Interest Income	17	18	24

### 1999 Results:

In 1999, the Corporate Account recorded net loss of \$5 million, compared to a planned net loss of \$0.8 million.

## CORPORATE RESOURCES

	1999	1999	1998
	Actual	Planned	Actual
Staff Years	1 943	2 021	2 046
Operating Budget (\$M)	174	213	198

## BE A MODERN AND VISIBLE REPRESENTATIVE OF THE FEDERAL GOVERNMENT: OUR GOALS AND ACHIEVEMENTS

### STRATEGIC GOALS

### RESULTS ACHIEVED IN 1999

#### Support the Federal Policy Agenda

**Work closely with other federal departments and agencies in addressing the priorities of the Government** of Canada in such areas as work and knowledge, children, Aboriginal peoples and the environment.

#### Streamlining social housing

- > Signed agreements with Nunavut and Ontario to transfer responsibility for the management of federal social housing resources.

#### Helping to address homelessness

- > As part of a broader strategy to address homelessness, we enhanced our housing renovation programs targeted to low-income Canadians and victims of family violence **by increasing funding by \$311 million over the next 4 years**. Related programs were expanded and increased flexibility was incorporated.

#### Developing solutions to address the impacts of climate change

- > As part of Canada's **National Climate Change Process**, we worked towards developing solutions that would enable Canada to meet its commitments under the Kyoto Protocol. Through the Municipalities Table and the Buildings Table, we sponsored research on Community Energy Planning, as well as on the relationship between greenhouse gas emission reductions and the residential sector.

#### Increase the Visibility of CMHC as the Federal Government's Housing Agency

**Reinforce CMHC's position as Canada's leading source of comprehensive housing information**, increasing both customer satisfaction and the number of repeat purchases.

#### Commitment to client service

- > Formed a **Client Services Team** to find new ways of improving our operations and increasing customer satisfaction.
- > Implemented a **Corporate branding** initiative to improve public awareness of the value that the Government of Canada, through CMHC, brings to Canadians.
- > **Harmonized the look** for all of our products and services, and developed corporate messages for our key clients to assist us in communicating consistently and effectively.
- > Committed new resources to ensure that our existing partnerships with industry associations are strengthened, and new areas of creative business opportunities are developed.

## Complete CMHC's Transition to a More Modern Organization to Enhance Operational Efficiency

**Extend, enhance and upgrade all information technology (IT) systems and computer applications** in preparation for the Year 2000, and to ensure that we become more competitive than ever in the new millennium.

**Implement new corporate management and human resource measures** to help ensure the ongoing realization of CMHC's corporate initiatives and policies.

**Enhance our risk management framework and capabilities** to provide more timely and proactive information throughout the Corporation.

### Advancing our IT capabilities

- > Our Information Technology department successfully reprogrammed and upgraded all IT and non-IT systems to ensure full Y2K compliance. CMHC entered the Year 2000 without any disruptions or delays in service.
- > Conducted a review of support services, resulting in outsourcing agreements for document production and lease management, as well as a partnership agreement for mainframe computer services.

### Living our corporate values

- > Succession planning was advanced with the approval of a leadership profile and the establishment of a support network for the **Leadership Cadre**.
- > A full line of competency tools was developed to assist managers and staff implement a competency-based approach to human resource management in the workplace.
- > Pilots were launched to modernize CMHC's **performance management program** that assesses staff on their functional and behavioural competencies as well as their contribution to the attainment of business objectives.
- > An **incentive compensation policy** was approved to support performance management and competency development. A post-1999 workforce adjustment policy was approved to assist parts of the organization still undergoing change.

### Minimizing risk

- > We established an independent Risk Management Division to strengthen our pool of risk management experience and expertise, and focus new resources on improving risk policy, systems analysis and reporting.



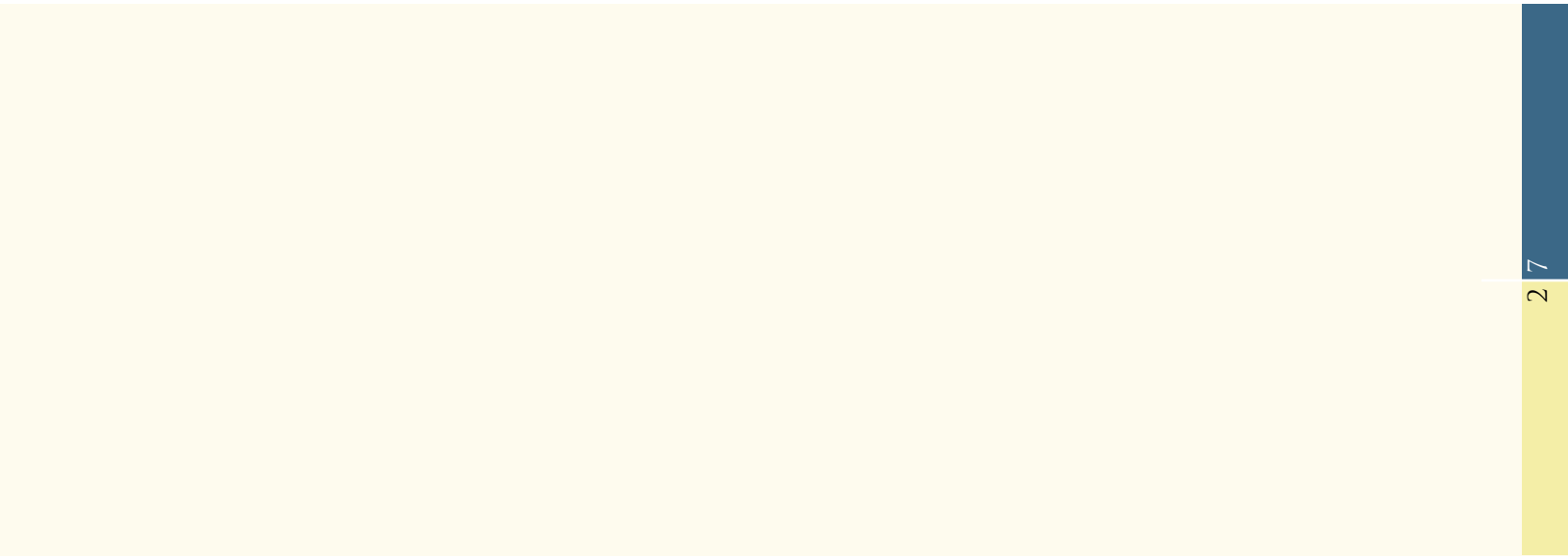
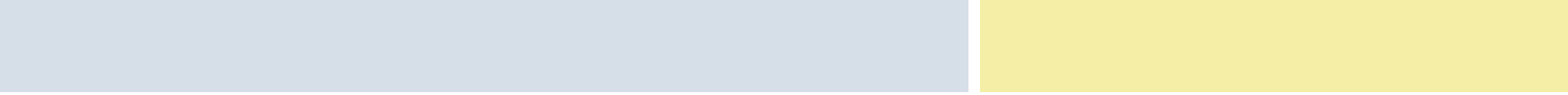


B

USINESS HIGHLIGHTS

## BUSINESS HIGHLIGHTS

	1999	1998	1997	1996	1995
<b>Mortgage Insurance Fund (MIF) and Mortgage-Backed Securities Guarantee Fund (MBSGF)</b>					
MIF Units Insured	376 200	476 669	486 352	355 009	274 834
MIF Insurance in Force (\$M)	187 392	182 450	164 000	131 000	118 000
MIF Net Income (\$M)	310	152	(21)	12	79
MIF Unappropriated Surplus (\$M)	85	133	(9)	12	1
MBSGF Securities Issued (\$M)	12 854	9 076	6 949	1 723	1 557
MBSGF Surplus (\$M)	55	44	36	30	23
<b>Minister's Account</b>					
Social Housing Units Committed	20 850	13 700	10 850	13 967	16 427
Estimated Households Assisted	639 200	643 750	645 600	656 587	664 235
Grants, Contributions, Subsidies (\$M)	1 886	1 841	1 900	1 945	2 002
<b>Corporate Account</b>					
Net Income (\$M)	(5)	1	11	(6)	(9)
Real Estate Sales (\$M)	11	62	25	17	12
Gains on Real Estate (\$M)	(4)	(2)	5	(5)	2
<b>Corporate Resources</b>					
Operating Expenses (\$M)	174	198	240	269	248





# C

## CORPORATE GOVERNANCE

### STEERING THE SHIP

#### 1973

The Board of Directors approves a plan for the reorganization of CMHC with an eye to decentralizing more authority and resources to field offices; strengthening the planning function to anticipate and adapt to changing needs; and organizing for the delivery of programs on the basis of program objectives rather than functions.

#### 1975

Bill C-77 amends the CMHC Act to provide for a Chairman, separate from the Office of the President, to be designated from among the Board of Directors.

#### 1979

CMHC participates with the Auditor General in the development of a comprehensive audit system for Crown corporations.

#### 1996

A review of CMHC's governance practices concludes that CMHC is well governed and managed, has appropriate management structures in place, and that a good working relationship exists between the Board and management.

#### 1997

A Corporate Governance Committee is established in response to the Government of Canada's desire for increased accountability by Crown corporations.

#### 1999

CMHC receives a clean bill of health, or a "clean opinion" in a Special Examination conducted by the Office of the Auditor General of Canada, for the third time in as many examinations.

## CORPORATE GOVERNANCE

Corporate governance at CMHC is the responsibility of the Board of Directors. The role of the Board is to provide effective leadership and to guide the affairs of the Corporation on behalf of the Government of Canada, to which it is ultimately accountable. The Board is made up of the Chairman, the President and Chief Executive Officer of the Corporation, and 8 other Board members appointed by the Federal Government. Drawn from both the public and private sectors, members of the Board bring different perspectives and a variety of expertise to CMHC's corporate governance.

To improve accountability, the Board launched its "corporate governance" project in 1996. A Corporate Governance Committee was subsequently established, responsible for all aspects of corporate stewardship, and for addressing governance issues that are unique to CMHC. The Board of Directors also became much more involved in all aspects of CMHC's corporate planning process, providing strategic direction at the outset, and helping to identify the business and public policy issues that will shape CMHC's operations.

In 1999, the Corporation completed a review of its corporate governance structure relating to financial risk management. The purpose was to strengthen the structure that the Board of Directors and Senior Management of the Corporation have in place to protect our financial integrity, while remaining flexible enough to evolve with financial industry practices. The review resulted in the establishment of a senior level Asset/Liability Management Committee (ALCO) and an Investment Committee to provide specialized focus on financial risk management. Reporting directly to the Corporate Governance Committee of the Board, ALCO is a decision-making body responsible for evaluating and overseeing operational management for treasury, financial positions, risk exposures, and financial strategies of the Corporation. Acting as an advisory body to ALCO, the Investment Committee provides technical depth and external support on CMHC's investment activities related to the management of the Insurance and Guarantee Funds.

The past year was a period of transition for risk management at CMHC. The Corporation is continuing to ensure that a modern organizational structure is in place, with appropriate policies, procedures, information systems and skills to ensure the effective management and control of its risks. As a result, it has adopted a more integrated approach to risk management, expanding its traditional focus on areas such as market and credit risks, to a broader basis, in a manner consistent with best practices. While still in its infancy stage, this new approach requires a more integrated effort on the part of various divisions within the Corporation.

CMHC has made many changes to its system of corporate governance in recent years. It has provided progress reports to the Minister; to his colleagues in other federal Crown corporations, to the staff of the Prime Minister's office, and to the Canadian Centre for Management Development. The feedback received has been very positive, and CMHC is becoming recognized as a leader in the field.



*From left to right, standing: Gerald Norbraten, Cuckoo Kochar, Renate Bublick, Janice Cochrane, Peter Smith; sitting: Marc Rochon, Marie Bourbonnière, Claude Hallé, Claude Poirier-Defoy, Patricia Toner.*

## BOARD OF DIRECTORS AND PRINCIPAL OFFICERS

### Board of Directors (As at December 31, 1999)

*Peter R. Smith*  
Brampton, Ontario  
Chairman of the Board of Directors  
President, Andrin Ltd.

*Marc Rochon*  
Ottawa, Ontario  
President and Chief Executive Officer

*Marie Bourbonnière*  
Montréal, Quebec  
Consultant (since November 23, 1999)

*Renate Bublik*  
Vancouver, British Columbia  
President, Cypress Consultants

*Janice Cochrane*  
Ottawa, Ontario  
Deputy Minister; Citizenship and Immigration Canada

*Claude Hallé*  
Québec, Quebec  
President and CEO, Groupe TS Inc.

*Cuckoo Kochar*  
Ottawa, Ontario  
President and CEO, DCR/Phoenix Group  
of Companies

*Gerald Norbraten*  
Regina, Saskatchewan  
President, Norbraten Architects

*Ronald A. Quail*  
Hull, Quebec  
Deputy Minister; Public Works and Government Services  
(until November 23, 1999)

*Patricia Toner*  
Grand Falls, New Brunswick  
Supervisor, Grand Falls Public Library

### Corporate Officers (As at December 31, 1999)

*Marc Rochon*  
President and Chief Executive Officer

*William G. Mulvihill*  
Vice-President, Corporate Services and  
Chief Financial Officer

*Roger Collet*  
Vice-President, Communications, Marketing  
and Export Development

*Karen A. Kinsley*  
Vice-President, Insurance

*Claude Poirier-Defoy*  
Vice-President, Legal Services and  
Corporate Secretary

*Douglas A. Stewart*  
Vice-President, Policy and Programs

*Joan Dalrymple*  
General Manager, Atlantic Business Centre

*Peter Friedmann*  
General Manager, Ontario Business Centre

*Elizabeth Huculak*  
General Manager, Prairie, Nunavut and  
Northwest Territories Business Centre

*James T. Lynch*  
General Manager  
British Columbia and Yukon Business Centre

*Jean-François Martin*  
General Manager, Quebec Business Centre

*Jim Millar*  
General Manager, Human Resources and  
Organizational Development

*Berta Zaccardi*  
General Manager, NHA Mortgage-Backed  
Securities Centre



# A

ACCESSING CMHC INFORMATION,  
PRODUCTS, PUBLICATIONS  
AND SERVICES

## ACCESSING CMHC INFORMATION, PRODUCTS, PUBLICATIONS AND SERVICES

### **CMHC on the World Wide Web**

[www.cmhc-schl.gc.ca](http://www.cmhc-schl.gc.ca)

### **National Office**

700 Montreal Road  
Ottawa, ON  
K1A 0P7  
(613) 748-2000

### **Regional Business Centres**

Atlantic  
(902) 426-3530

Quebec  
(514) 283-4464

Ontario  
(416) 221-2642

Prairie, Nunavut and Northwest Territories  
(403) 515-3000

British Columbia and Yukon  
(604) 731-5733

### **Other Key Contact Numbers**

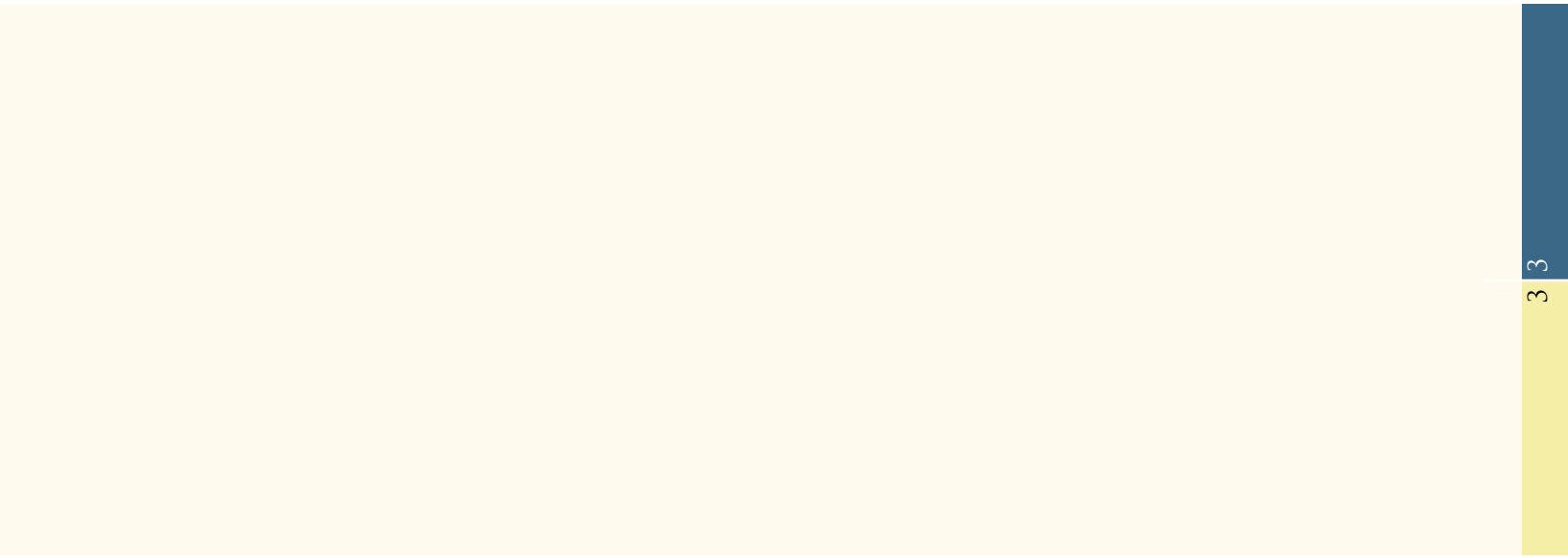
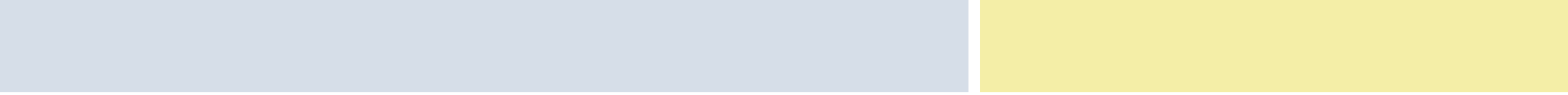
Canadian Housing Information Centre (CHIC)  
1 800 668-2642  
(613) 748-2367  
TTY 1 800 309-3388  
E-mail: [chic@cmhc-schl.gc.ca](mailto:chic@cmhc-schl.gc.ca)

NHA Mortgage-Backed Securities Centre  
(416) 221-2642

Market Analysis Electronic Marketplace  
[www.cmhc-schl.gc.ca/mktinfo/store](http://www.cmhc-schl.gc.ca/mktinfo/store)  
1 800 668-2642

### **For All Other Information**

(613) 748-2000





# F

INANCIAL STATEMENTS

## FINANCIAL STATEMENTS

**For the Year Ended 31 December 1999**

### **Management's Responsibility for Financial Reporting**

CMHC management is responsible for establishing and maintaining a system of books, records, internal controls and management practices to provide reasonable assurance that: reliable financial information is produced; the assets of the Corporation are safeguarded and controlled; the transactions of the Corporation are in accordance with the relevant legislation, regulations and by-laws of the Corporation; the resources of the Corporation are managed efficiently and economically; and the operations of the Corporation are carried out effectively.

Management is also responsible for the integrity and objectivity of the financial statements of the Corporation. The accompanying financial statements for the year ended 31 December 1999 were prepared in accordance with generally accepted accounting principles in Canada. The financial information contained elsewhere in this report is consistent with that in the financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee, which includes a majority of members who are not officers of the Corporation. The Committee meets from time to time with management, internal audit staff, and independent external auditors to review the manner in which these groups are performing their responsibilities and to discuss auditing, internal controls and other relevant financial matters. The Audit Committee has reviewed the financial statements with the external auditors and has submitted its report to the Board of Directors which has approved the financial statements.

The financial statements have been audited by the joint external auditors, Jean-Guy Poulin, CA, of the firm Mallette Maheu, and L. Denis Desautels, FCA, Auditor General of Canada. Their report offers an independent opinion of the financial statements to the Minister of Public Works and Government Services.



Marc Rochon  
President and Chief Executive Officer



Bill Mulvihill  
Vice-President, Corporate Services  
and Chief Financial Officer

## AUDITORS' REPORT

### To the Minister of Public Works And Government Services

We have audited the balance sheets of the Canada Mortgage and Housing Corporation for the Corporate Account and the Insurance and Guarantee Funds as at 31 December 1999, and the related statements of operations and reserve fund, operations and surplus, and cash flows, and the Minister's Account statement of expenses recoverable for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

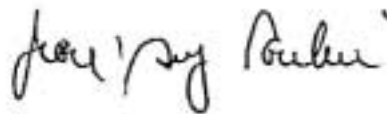
We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 December 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied, after giving retroactive effect to the change in the method of accounting for gains and losses on investments held in the Insurance and Guarantee Funds as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Mortgage and Housing Corporation Act*, the *National Housing Act* and the by-laws of the Corporation.



L. Denis Desautels, FCA  
Auditor General of Canada



Jean-Guy Poulin, CA  
Mallette Maheu  
General Partnership  
Associated with Arthur Andersen

Ottawa, Canada  
23 February 2000

## CORPORATE ACCOUNT

### BALANCE SHEET AS AT 31 DECEMBER

*in millions of dollars*

<b>Assets</b>	<b>notes</b>	<b>1999</b>	<b>1998</b>
Loans and Investments	4	<b>16 388</b>	16 306
Cash and Investment in Securities	16	<b>615</b>	539
Securities Purchased Under Resale Agreements		<b>373</b>	214
Due from the Minister	5	<b>238</b>	252
Accounts Receivable		<b>157</b>	255
Business Premises and Equipment	6	<b>57</b>	55
Deferred Recoveries from the Minister		<b>40</b>	151
Other Assets		<b>40</b>	26
Future Income Taxes to Recover	11	<b>13</b>	20
		<b>17 921</b>	17 818
<b>Liabilities</b>			
Capital Market Borrowings	7	<b>10 958</b>	10 673
Borrowings from the Government of Canada	7	<b>6 215</b>	6 418
Securities Sold But Not Yet Purchased		<b>374</b>	-
Accounts Payable and Accrued Liabilities	5	<b>305</b>	341
Obligation Under Capital Lease	8	<b>27</b>	29
Due to the Receiver General for Canada		<b>6</b>	85
Securities Sold Under Repurchase Agreements		-	214
Due to Insurance and Guarantee Funds		-	17
		<b>17 885</b>	17 777
<b>Equity</b>			
Capital Authorized and Fully Paid by the Government of Canada		<b>25</b>	25
Reserve Fund	9	<b>11</b>	16
		<b>36</b>	41
		<b>17 921</b>	17 818

*The accompanying notes are an integral part of these financial statements.*

## CORPORATE ACCOUNT

### STATEMENT OF OPERATIONS AND RESERVE FUND YEAR ENDED 31 DECEMBER

*in millions of dollars*

	notes	1999	1998	1997
Interest Earned	24	<b>1 252</b>	1 261	1 199
Interest Expense	24	<b>(1 235)</b>	(1 237)	(1 163)
Net Interest Income		<b>17</b>	24	36
Real Estate Sales	24	<b>11</b>	62	25
Cost of Real Estate Sold		<b>(9)</b>	(61)	(11)
Holding Costs		<b>(6)</b>	(3)	(9)
Gain (Loss) on Real Estate		<b>(4)</b>	(2)	5
Other Income		<b>3</b>	5	2
Income before Operating Expenses		<b>16</b>	27	43
Operating Expenses	10	<b>(19)</b>	(23)	(24)
Income (Loss) before Taxes		<b>(3)</b>	4	19
Taxes	11			
Current		<b>5</b>	4	(15)
Future		<b>(7)</b>	(7)	7
		<b>(2)</b>	(3)	(8)
Net Income (Loss)		<b>(5)</b>	1	11
Reserve Fund, Beginning of Year		<b>16</b>	15	4
Reserve Fund, End of Year		<b>11</b>	16	15

*The accompanying notes are an integral part of these financial statements.*

## CORPORATE ACCOUNT

### STATEMENT OF CASH FLOWS YEAR ENDED 31 DECEMBER

*in millions of dollars*

	note	1999	1998	1997
<b>Cash Flows Provided by (Used in) Operating Activities</b>				
Net Income (Loss)		(5)	1	11
Add (Deduct)				
Amortization		3	5	5
Future Income Taxes to Recover		7	7	(7)
		5	13	9
Changes in				
Due to/from				
the Receiver General for Canada		(79)	71	(10)
Insurance and Guarantee Funds		(17)	6	(11)
the Minister		14	(65)	91
Accounts Receivable		26	(13)	(30)
Accounts Payable and Accrued Liabilities		(36)	(22)	40
Accrued Interest Payable		50	57	54
Accrued Interest Receivable		9	3	3
Other Assets		(13)	(12)	1
		(41)	38	147
<b>Cash Flows Provided by (Used in) Investment Activities</b>				
Loans and Investments				
Repayments		551	464	564
Additions		(642)	(1 320)	(1 867)
Investment in Securities				
Sales and Maturities		10 946	8 331	11 587
Purchases		(10 727)	(8 439)	(11 698)
Change in Deferred Recoveries from the Minister		111	25	77
Additions in Business Premises and Equipment		(5)	1	(4)
		234	(938)	(1 341)
<b>Cash Flows Provided by (Used in) Financing Activities</b>				
Repayments of Borrowings from the Government of Canada		(213)	(413)	(257)
Capital Market Borrowings				
Issues		6 499	12 499	23 196
Repayments		(6 182)	(11 282)	(21 553)
Repayment of Obligation Under Capital Lease		(2)	(2)	(2)
		102	802	1 384
<b>Increase (Decrease) in Cash and Cash Equivalents</b>		<b>295</b>	<b>(98)</b>	<b>190</b>
Cash and Cash Equivalents	16			
Beginning of Year		320	418	228
End of Year		615	320	418

*The accompanying notes are an integral part of these financial statements.*

## MINISTER'S ACCOUNT

### STATEMENT OF EXPENSES RECOVERABLE YEAR ENDED 31 DECEMBER

*in millions of dollars*

<b>Expenses Recoverable</b>	<b>notes</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>
Grants and Contributions		<b>1 822</b>	1 767	1 822
Operating Expenses	10	<b>58</b>	70	69
Fees Paid to Delivery Agents		<b>6</b>	4	9
Expenses Recoverable	5	<b>1 886</b>	1 841	1 900

*The accompanying notes are an integral part of these financial statements.*

## INSURANCE AND GUARANTEE FUNDS

### BALANCE SHEET AS AT 31 DECEMBER

*in millions of dollars*

	notes	1999	1998
<b>Assets</b>	12		(Restated note 3)
Investment in Securities	16	3 880	3 222
Real Estate Inventory		186	223
Future Income Taxes to Recover	11	55	57
Mortgages		4	15
Securities Purchased Under Resale Agreements		-	684
Due from Corporate Account		-	17
Current Taxes Receivable		-	15
		<b>4 125</b>	4 233
<b>Liabilities</b>			
Unearned Premiums and Guarantee Fees	13	2 684	2 417
Provision for Claims	13	732	836
Taxes Payable		86	-
Deferred Gains on Disposal of Securities	16	62	39
Accounts Payable and Accrued Liabilities		53	70
Securities Sold Under Repurchase Agreements		-	684
		<b>3 617</b>	4 046
<b>Surplus</b>			
Unappropriated		140	177
Appropriated	14	368	10
		<b>508</b>	187
		<b>4 125</b>	4 233

*The accompanying notes are an integral part of these financial statements.*

## INSURANCE AND GUARANTEE FUNDS

### STATEMENT OF OPERATIONS AND SURPLUS YEAR ENDED 31 DECEMBER

*in millions of dollars*

	notes	1999	1998	1997
			(Restated note 3)	(Restated note 3)
<b>Revenues</b>	12			
Earned Premiums and Guarantee Fees	13	<b>582</b>	498	425
Application Fees		<b>49</b>	53	55
Income from Investments	3	<b>241</b>	207	177
Other		<b>2</b>	4	1
		<b>874</b>	762	658
<b>Expenses</b>				
Loss on Claims		<b>329</b>	358	424
Operating Expenses	10	<b>97</b>	105	147
Government of Canada Fee	24	<b>24</b>	23	12
Adjustment to Provision for Claims		<b>(97)</b>	16	97
		<b>353</b>	502	680
Income (Loss) before Taxes		<b>521</b>	260	(22)
Taxes	11			
Current		<b>198</b>	111	14
Future		<b>2</b>	(11)	(21)
		<b>200</b>	100	(7)
Net Income (Loss)		<b>321</b>	160	(15)
<b>Surplus</b>				
Unappropriated				
Balance, Beginning of Year		<b>201</b>	37	48
Change in Accounting Policy	3	<b>(24)</b>	(10)	(6)
Restated Balance, Beginning of Year		<b>177</b>	27	42
Transferred to Appropriated		<b>(358)</b>	(10)	-
Balance, End of Year		<b>140</b>	177	27
Appropriated	14			
Balance, Beginning of Year		<b>10</b>	-	-
Transferred from Unappropriated		<b>358</b>	10	-
Balance, End of Year		<b>368</b>	10	-
Total Surplus, End of Year		<b>508</b>	187	27

*The accompanying notes are an integral part of these financial statements.*

## INSURANCE AND GUARANTEE FUNDS

### STATEMENT OF CASH FLOWS YEAR ENDED 31 DECEMBER

*in millions of dollars*

	notes	1999	1998	1997
	12			
<b>Cash Flows Provided by (Used in)</b>				
<b>Operating Activities</b>				
Premiums and Guarantee Fees Received		<b>849</b>	812	788
Application Fees Received		<b>49</b>	53	55
Investment Income Received		<b>292</b>	216	174
Net Claims		<b>(280)</b>	(289)	(374)
Government of Canada Fee	24	<b>(35)</b>	-	-
Operating Expenses Paid		<b>(112)</b>	(116)	(116)
Taxes Paid		<b>(97)</b>	(121)	(16)
Other		<b>1</b>	(34)	(29)
		<b>667</b>	521	482
<b>Cash Flows Provided by (Used in)</b>				
<b>Investment Activities</b>				
Investment in Securities				
Sales and Maturities		<b>1 565</b>	4 577	5 717
Purchases		<b>(2 249)</b>	(5 092)	(6 210)
		<b>(684)</b>	(515)	(493)
Increase (Decrease) in Due from (to) Corporate Account		<b>(17)</b>	6	(11)
Due from (to) Corporate Account				
Beginning of Year		<b>17</b>	11	22
End of Year		<b>-</b>	17	11

*The accompanying notes are an integral part of these financial statements.*

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 1999

### I. BASIS OF PRESENTATION

Canada Mortgage and Housing Corporation was incorporated as a Crown corporation 1 January 1946. The Corporation is regulated by the *Canada Mortgage and Housing Corporation Act* (CMHC Act). The Corporation's mandate, as stated in the *National Housing Act* (NHA), is "to promote the construction of new houses, the repair and modernization of existing houses and the improvement of housing and living conditions." The Corporation is for all purposes an agent of Her Majesty in the right of Canada.

Bill C-66, the Act to amend the NHA and the CMHC Act, was passed by Parliament and received Royal Assent on 17 June 1999. The amendments have simplified the NHA by removing unnecessary restrictions, and enable CMHC to respond quickly to the needs of Canadians and to opportunities in the loan insurance workplace. In addition, the Corporation will be better able to expand export opportunities for Canada's housing industry.

The Corporation has three separate responsibilities under its mandate and maintains separate accounting records for each. Separate financial statements are presented in order to preserve the separate identities of the assets, liabilities, capital, reserve fund, surpluses or deficits.

Together, these statements constitute the financial statements of the Corporation and reflect all of the transactions of the Corporation for the year ended 31 December 1999.

In total, the Corporation manages:

*in millions of dollars*

	1999	1998
Assets	22 046	22 034
Liabilities	21 502	21 806
Portion Payable to the Government of Canada	6 215	6 418
Minister's Account Expenses Recoverable from Parliamentary Appropriations	1 886	1 841
Operating Expenses	174	198

### Corporate Account

The Corporation makes loans and other investments under various provisions of the *National Housing Act*, develops and sells land holdings, and provides services in housing related areas. Funding is provided by borrowings from the Government of Canada and capital markets.

### Minister's Account

The Corporation administers housing programs under provisions of the *National Housing Act* with funding provided by the Government of Canada through annual Parliamentary appropriations. The Corporation is reimbursed for subsidies and losses relating to these programs in addition to the related operating expenses.

### Insurance and Guarantee Funds

The Corporation administers insurance and guarantee funds under provisions of the *National Housing Act*. The Mortgage Insurance Fund provides insurance against borrower default on residential mortgages. The Mortgage-Backed Securities Guarantee Fund guarantees the timely payment of the principal and interest for investors of securities based on NHA insured mortgages.

## 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with generally accepted accounting principles (GAAP) in Canada. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### General Accounting Policies

The following accounting policies apply to the financial statements of the Corporate Account and the Insurance and Guarantee Funds.

#### A. Securities Purchased Under Resale and Sold Under Repurchase Agreements

Securities purchased under resale agreements consist of the purchase of a security, normally a government bond, with the commitment by the Corporation to resell the security to the original seller at a specified price. Securities sold under repurchase agreements consist of the sale of a security with the commitment by the Corporation to repurchase the security at a specified price. Securities purchased under resale and sold under repurchase agreements are carried at cost on the balance sheet. The difference between the sale price and the agreed repurchase price on a repurchase agreement and the difference between the cost of the purchase and the predetermined proceeds to be received on a resale agreement are recorded over the term of the agreement. Where the Corporation has an obligation to deliver securities which it did not own at the time of the sale, they are recorded as securities sold but not yet purchased at an amount equal to the cost of the sale.

#### B. Income Taxes

The Corporation is a prescribed Crown corporation for tax purposes. While most activities are subject to federal income tax under the *Income Tax Act*, the Corporation is not subject to provincial income taxes on its own activities.

Income taxes are accounted for using the future income taxes method. Accordingly, future income taxes are recognized on assets and liabilities with temporary taxable differences. The income tax rates used to measure future tax assets and liabilities are those rates that, at the balance sheet date, are expected to apply when the assets are realized or the liabilities are settled.

Charges to tax expense include federal income tax and large corporations tax.

### Corporate Account

The following accounting policies apply to the financial statements of the Corporate Account.

#### C. Loans and Investments

##### i. Loans

Loans are carried at cost plus accrued interest. As they are intended to be held until maturity, their carrying value is not adjusted to reflect any temporary decline in fair value.

Losses on insured loans are recoverable through the Mortgage Insurance Fund; losses on uninsured loans are recoverable from the Government of Canada through the Minister's Account.

The Corporate Account is assured full collection of principal and interest and will not incur any losses on these loans due to uncollectibility. Consequently, no loss provisions for loan impairment are made.

If loans contain forgiveness clauses, such forgiveness is recorded and recovered from the Government of Canada through the Minister's Account when the loans are advanced.

Loans under certain programs contain interest rate clauses that are lower than the related Borrowings from the Government of Canada. Accordingly, related interest earnings losses are recoverable from the Government of Canada through the Minister's Account.

## **ii. Federal-Provincial Agreements**

Loans and investments in housing projects are governed by various cost-sharing agreements and the more recent social housing agreements with the provinces and territories.

Losses on loans and investments in housing projects covered by the new social housing agreements are fully guaranteed by the provinces and territories. The Corporation's portion of losses on cost shared projects are recoverable from the Government of Canada through the Minister's Account.

The Corporation's share of gains on the sale of land assembly projects are recognized as a Gain on Real Estate.

## **iii. Real Estate**

Real estate is comprised of direct acquisitions and properties acquired through default on uninsured loans.

All real estate is recorded at acquisition cost plus any modernization and improvement costs and other related costs incurred.

Holding costs, including interest, for properties acquired as the result of default on uninsured loans, and for directly acquired social housing projects, are fully capitalized. Gains or losses on the disposal of these properties are paid to or recovered from the Government of Canada through the Minister's Account. All net operating losses, including amortization of buildings calculated on a straight-line basis over the remaining term of the corresponding debt, are recovered from the Government of Canada through the Minister's Account.

For all other properties, holding costs, including interest, are capitalized up to market value after which the costs are expensed.

## **D. Investment in Securities**

The Corporation generally matches the term of its assets and liabilities within tolerances set out by interest rate risk limits. Gains and losses that result from the sale of investments related to funding activities are deferred and amortized on a straight-line basis to Interest Expense over the term of the most recent debt issue. Deferred gains and losses are included in Other Assets.

## **E. Deferred Recoveries from the Minister**

Expenditures to modernize and improve certain properties are recovered from the Government of Canada through the Minister's Account over a period not exceeding ten years.

## **F. Pension Cost and Obligation**

The Corporation provides pensions based on length of service and the average earnings of the best five-year period as classified under defined benefit retirement pension arrangements.

The cost of pension benefits earned by employees is determined using the projected benefit method of actuarial valuation with projected salary increases where appropriate, prorated on services and charged to operations as services are rendered. This cost reflects management's best estimate of the pension fund's expected investment yields, and of salary escalations, mortality of members, terminations and ages at which members will retire. Adjustments arising from plan amendments, experience gains and losses, and changes in assumptions are amortized over the estimated average remaining service life of the employee group.

The difference between the accumulated pension expense and the employer's contributions to the Pension Fund, the deferred pension liability, is reflected in the Balance Sheet under Accounts Payable and Accrued Liabilities.

## **G. Post-Retirement Benefits**

Post-retirement benefits, other than pension benefits, are expensed as incurred and are included in Operating Expenses.

## **H. Interest Earned**

Interest Earned arising from Loans and Investments, Cash and Investment in Securities, and Deferred Recoveries from the Minister is recognized on an accrual basis up to the date that the asset is retired. Certain interest revenue is obtained through the Minister's Account.

#### **I. Capital Market Borrowing Costs**

Issuance costs on Capital Market Borrowings are deferred and amortized as Interest Expense on a straight-line basis over the term of the debt.

Premiums and discounts on Capital Market Borrowings are deferred and amortized on a constant yield basis over the term of the debt.

#### **J. Amortization**

Business Premises and Equipment are amortized on a diminishing balance basis over the estimated useful life of the asset. Leasehold improvements are amortized on a straight-line basis.

#### **K. Derivative Financial Instruments**

The Corporation enters into interest rate and foreign exchange transactions in order to manage its exposure to both interest rate and currency fluctuations. The Corporation uses accrual accounting for derivative transactions used for its own on-balance sheet asset and liability management purposes. Gains and losses resulting from termination of these contracts are deferred and included in Other Assets and amortized on a straight-line basis to Interest Earned or Interest Expense over the term of the underlying exposure.

#### **Insurance and Guarantee Funds**

The following accounting policies apply to the financial statements of the Insurance and Guarantee Funds.

#### **L. Investment in Securities**

Investments are purchased with the original intention to hold them to maturity, and are carried at amortized cost plus accrued interest. Investments are written down to their fair value when declines in value are other than temporary. Premiums and discounts on investments are amortized on a constant yield basis to income over the period to maturity of the related investments. Losses realized on write downs to reflect other than temporary impairment in value are included in Interest Earned from the investments in the year in which they occur.

Since these investments are acquired to meet the long-term obligations of the Insurance and Guarantee Funds, gains and losses from disposals of fixed income investments are deferred and amortized over the remaining life of the original investment to reflect the long-term yield from such investments as income each year.

#### **M. Real Estate Inventory**

Real Estate acquired upon the payment of a claim resulting from a loan default is carried at the lower of cost or net realizable value. Net realizable value is calculated as the current market value of the property, as determined by the Corporation, less the discounted value of estimated holding and disposal costs. Amortization is not recorded on the real estate.

#### **N. Mortgages**

Mortgages are carried at cost less a provision for estimated risk of default.

#### **O. Provision for Claims**

The provision for claims represents an estimate for expected claims and related expenses, net of expected sale receipts, for defaults that have occurred on or before the balance sheet date. The provision takes into consideration the time value of money and includes an explicit provision for adverse deviation in accordance with accepted actuarial practice.

## **P. Premium Revenue and Unearned Premiums**

The Corporation earns premium revenue over the period covered by each individual contract based on factors developed by the Office of the Superintendent of Financial Institutions for mortgage insurance businesses. These factors reflect the long-term pattern for default risk by age of a mortgage insurance policy.

Unearned premiums represent the portion of premiums written related to the unexpired portion of the policy at year end. This provision is for claims that have not yet occurred and therefore, covers the period from the balance sheet date to the date of default.

## **Q. Guarantee Fees**

Guarantee fees are deferred and are taken into income over the term of the related Mortgage-Backed Security issue on a straight-line basis.

## **R. Application Fees**

Application fees are recognized as income when received.

## **S. Insurance Issuance Costs**

Issuance costs are expensed as incurred and are included in Operating Expenses.

## **3. CHANGE IN ACCOUNTING POLICY**

The Insurance and Guarantee Funds acquire investments to meet future obligations arising from insurance and guarantee contracts. Since the term of the contracts is long, investments are acquired with the intention of holding them to maturity.

In 1999, the Corporation changed its method of accounting for gains and losses realized on the disposal of fixed income investments held by the Insurance and Guarantee Funds. Gains and losses from such disposals are now deferred and amortized over the remaining life of the original investment in order to reflect the long-term yield from such investments as income each year. Previously, the gains and losses on disposal were included in income in the year in which they were realized. This change in accounting policy has been applied retroactively.

The effect of this change has been a reduction in the 1997 opening surplus of \$6 million after adjusting for the tax effect and the following restatements of the Statement of Operations and Surplus and Balance Sheet of the Insurance and Guarantee Funds.

*in millions of dollars*

	<b>1999</b>	<b>1998</b>	<b>1997</b>
Effect on Statement of Operations and Surplus			
Decrease in Income from Investments	<b>37</b>	26	10
Amortization of Net Gains	<b>14</b>	3	3
Decrease in Income (Loss) before Taxes	<b>23</b>	23	7
Decrease in Taxes	<b>9</b>	9	3
Decrease in Net Income (Loss)	<b>14</b>	14	4
Effect on Balance Sheet			
Deferred Gains on Disposal of Securities	<b>62</b>	39	16

#### 4. LOANS AND INVESTMENTS

*in millions of dollars*

	<b>1999</b>	<b>1998</b>
Loans	<b>5 100</b>	6 888
Federal-Provincial Agreements		
Loans	<b>9 687</b>	7 766
Investments in Housing Projects	<b>1 552</b>	1 591
Land Assembly Projects	<b>15</b>	13
	<b>11 254</b>	9 370
Real Estate		
Direct Acquisitions	<b>13</b>	25
Other	<b>21</b>	23
	<b>34</b>	48
Total Loans and Investments	<b>16 388</b>	16 306

Due to the federal initiative to transfer responsibility for social housing programs to the provinces and territories, nine agreements are in effect. As a result, losses related to the loans and investments covered by these social housing agreements, 40% (1998 - 13%) are recoverable from the respective provinces and territories.

Losses incurred on the remainder of the loans and investments portfolio are recoverable either from the Mortgage Insurance Fund, 30% (1998 - 52%), or the Minister's Account, 30% (1998 - 35%).

Of the total loans and investments portfolio, 92% (1998 - 91%) relates to social housing programs, the majority of which are supported with subsidies from the Minister's Account.

The amount of interest capitalized on real estate was \$5 million (1998 - \$8 million). Holding costs of \$6 million (1998 - \$3 million) on land acquired directly by the Corporation have been charged to the Corporate Account.

The following table provides the maturity structure of the loans:

*in millions of dollars*

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>Thereafter</b>	<b>Total</b>
	123	22	19	20	20	14 583	14 787

#### 5. DUE FROM THE MINISTER

*in millions of dollars*

	<b>1999</b>	<b>1998</b>	<b>1997</b>
Due from the Minister, Beginning of Year	<b>252</b>	187	278
Expenses Recoverable	<b>1 886</b>	1 841	1 900
Recovered from the Minister	<b>(1 900)</b>	(1 776)	(1 991)
Due from the Minister, End of Year	<b>238</b>	252	187

Expenses incurred but not yet recovered from the Government of Canada are recorded as Due from the Minister in the Corporate Account. This receivable is short-term and is non interest bearing.

The Corporation reports the cost of programs administered under the Minister's Account against an annual appropriation from the Government of Canada for the Government's fiscal year (1 April to 31 March). For the Government's 1999/2000 fiscal year, the annual appropriation for the Minister's Account is \$1 889 million (1998/1999 - \$1 933 million).

Due from the Minister includes \$184 million (1998 - \$243 million) which is also included in Accounts Payable and Accrued Liabilities in the Corporate Account. When paid, recovery will be made from the Government of Canada through the Minister's Account.

## 6. BUSINESS PREMISES AND EQUIPMENT

*in millions of dollars*

	<b>Amortization Rate</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>1999 Net Book Value</b>	<b>1998 Net Book Value</b>
Buildings	4% or 5%	75	24	<b>51</b>	47
Leasehold Improvements	20%	7	5	<b>2</b>	3
Equipment	8%, 20% or 30%	40	36	<b>4</b>	5
Total		122	65	<b>57</b>	55

A building under capital lease at a cost of \$30 million and a net book value of \$21 million (1998 - \$22 million) is included in Buildings.

Amortization in 1999 was \$3 million (1998 - \$5 million, 1997 - \$5 million).

## 7. BORROWINGS

The Corporation borrows from the Government of Canada and from capital markets under provisions of the *Canada Mortgage and Housing Corporation Act* and the *National Housing Act* to finance loans and investments.

The Corporation has authority to borrow a maximum of \$15 billion from sources other than the Government.

*in millions of dollars*

	<b>Interest Rate</b>	<b>Term</b>	<b>1999</b>	<b>1998</b>
Government of Canada	9.0%	21.7 years	<b>6 215</b>	6 418
Capital Market				
Commercial Paper	5.0%	60 days	<b>1 714</b>	1 125
Medium-term Borrowings	6.2%	2.6 years	<b>9 244</b>	9 548
Total			<b>17 173</b>	17 091

Included in these values is \$162 million (1998 - \$184 million) of accrued interest.

Capital market medium-term borrowings include US denominated debt. This debt is carried at the year end exchange rate. All foreign exchange exposure is fully hedged through the use of cross currency swaps, for both interest and principal payments. Swap contracts in place transform the US denominated debt into an expected net obligation in Canadian dollars at the exchange rate in place at the time of issuance of the debt.

The foreign denominated medium-term borrowings are:

*in millions of dollars*

	<b>1999</b>	<b>1998</b>
US Dollar Obligations	<b>800</b>	800
US Dollar Obligations Translated to Canadian Dollars:		
Based on Rate at Issuance	<b>1 103</b>	1 103
Based on Year End Rate	<b>1 155</b>	1 227

The following table provides the maturity structure of Corporate borrowings:

*in millions of dollars*

	<b>Government of Canada</b>	<b>Commercial Paper</b>	<b>Capital Market Medium-term Borrowings</b>	<b>Total</b>
Accrued Interest	74	-	88	162
2000	217	1 714	1 931	3 862
2001	229	-	1 263	1 492
2002	218	-	2 145	2 363
2003	245	-	1 882	2 127
2004	187	-	1 935	2 122
Thereafter	5 045	-	-	5 045
<b>Total</b>	<b>6 215</b>	<b>1 714</b>	<b>9 244</b>	<b>17 173</b>

## 8. OBLIGATION UNDER CAPITAL LEASE

The Corporation financed additions and improvements to the National Office building in 1990 with a long-term lease that is accounted for as a capital lease. The Corporation assumes ownership of the building for a cost of one dollar at the termination of the lease in 2015.

The annual lease payments are \$5 million for the first 10 years and \$4 million for the remaining 15 years.

The minimum lease payments are:

*in millions of dollars*

	<b>Leasehold Improvement (10 Year Lease)</b>	<b>Building (25 Year Lease)</b>	<b>Total</b>
Interest Rate	11.57%	11.77%	
2000 to 2004	1	18	19
2005 to 2015	-	39	39
Total future minimum lease payments	1	57	58
Less interest	-	31	31
Present value of minimum lease payments	1	26	27

Interest expense in 1999 was \$3 million (1998 - \$3 million, 1997 - \$4 million).

## 9. RESERVE FUND OF THE CORPORATE ACCOUNT

The Reserve Fund is limited by Order-in-Council to \$25 million. As at 31 December 1999, the reserve fund was \$11 million (1998 - \$16 million).

## 10. OPERATING EXPENSES

The operating expenses of the Corporation are allocated on the basis of staff utilization as follows:

*in millions of dollars*

	1999		1998		1997	
		%		%		%
Corporate Account	19	10.9	23	11.8	24	10.0
Minister's Account	58	33.3	70	35.3	69	28.8
Insurance and Guarantee Funds	97	55.8	105	52.9	147	61.2
Total	174	100.0	198	100.0	240	100.0

Operating Expenses for 1998 include estimated restructuring costs of \$6 million (1997 - \$37 million).

## 11. TAXES

The Corporation's income tax expense includes federal income tax (Tax) levied at 38% and large corporations tax (LCT) on certain capital amounts levied at 0.225%.

Taxes are:

*in millions of dollars*

	1999			1998			1997		
	Tax	LCT	Total	Tax	LCT	Total	Tax	LCT	Total
Corporate Account	2	-	2	3	-	3	8	-	8
Insurance and Guarantee Funds	198	2	200	99	1	100	(8)	1	(7)
Total	200	2	202	102	1	103	-	1	1

Tax charges in the Corporate Account reflect a higher tax expense than at the statutory rate of 38%. This is primarily due to the inclusion of \$3 million in the tax expense as a result of various Revenue Canada adjustments.

Future Income Taxes to Recover consists of the following temporary differences between the tax basis of assets and liabilities and their carrying amount on the balance sheet.

*in millions of dollars*

	1999	1998
<b>Corporate Account</b>		
Real Estate Reserve	13	11
Expenses Incurred But Not Disbursed	(2)	8
Other	2	1
Total	13	20
<b>Insurance and Guarantee Funds</b>		
Various Reserves	46	47
Expenses Incurred But Not Disbursed	9	10
Total	55	57
Future Income Taxes to Recover	68	77

## 12. INSURANCE AND GUARANTEE FUNDS

The Insurance and Guarantee Funds are comprised of two funds: the Mortgage Insurance Fund and the Mortgage-Backed Securities Guarantee Fund. The Mortgage Insurance Fund provides insurance against borrower default on residential mortgages. The Mortgage-Backed Securities Guarantee Fund guarantees the timely payment of principal and interest for investors of securities based on NHA insured mortgages. The following are the segregated statements of each fund.

### INSURANCE AND GUARANTEE FUNDS

#### BALANCE SHEET AS AT 31 DECEMBER

*in millions of dollars*

	<b>Mortgage Insurance Fund</b>		<b>Mortgage-Backed Securities Guarantee Fund</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
<b>Assets</b>	<b>(Restated note 3)</b>			
Investment in Securities	<b>3 776</b>	3 150	<b>104</b>	72
Real Estate Inventory	<b>186</b>	223	-	-
Future Income Taxes to Recover	<b>55</b>	57	-	-
Mortgages	<b>4</b>	15	-	-
Due from (to) Corporate Account	<b>2</b>	14	<b>(2)</b>	3
Securities Purchased Under Resale Agreements	-	684	-	-
Current Taxes Receivable	-	15	-	-
	<b>4 023</b>	4 158	<b>102</b>	75
<b>Liabilities</b>				
Unearned Premiums and Guarantee Fees	<b>2 637</b>	2 386	<b>47</b>	31
Provision for Claims	<b>732</b>	836	-	-
Taxes Payable	<b>86</b>	-	-	-
Deferred Gains on Disposal of Securities	<b>62</b>	39	-	-
Accounts Payable and Accrued Liabilities	<b>53</b>	70	-	-
Securities Sold Under Repurchase Agreements	-	684	-	-
	<b>3 570</b>	4 015	<b>47</b>	31
<b>Surplus</b>				
Unappropriated	<b>85</b>	133	<b>55</b>	44
Appropriated	<b>368</b>	10	-	-
	<b>453</b>	143	<b>55</b>	44
	<b>4 023</b>	4 158	<b>102</b>	75

## INSURANCE AND GUARANTEE FUNDS

### STATEMENT OF OPERATIONS AND SURPLUS (DEFICIT) YEAR ENDED 31 DECEMBER

*in millions of dollars*

	<b>Mortgage Insurance Fund</b>			<b>Mortgage-Backed Securities Guarantee Fund</b>		
	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>
	(Restated note 3)	(Restated note 3)				
<b>Revenues</b>						
Earned Premiums and Guarantee Fees	<b>571</b>	490	417	<b>11</b>	8	8
Application Fees	<b>47</b>	51	54	<b>2</b>	2	1
Income from Investments	<b>235</b>	202	173	<b>6</b>	5	4
Other	<b>2</b>	4	1	-	-	-
	<b>855</b>	747	645	<b>19</b>	15	13
<b>Expenses</b>						
Loss on Claims	<b>329</b>	358	424	-	-	-
Operating Expenses	<b>96</b>	103	145	<b>1</b>	2	2
Government of Canada Fee	<b>24</b>	23	12	-	-	-
Adjustment to Provision for Claims	<b>(97)</b>	16	97	-	-	-
	<b>352</b>	500	678	<b>1</b>	2	2
Income (Loss) before Taxes	<b>503</b>	247	(33)	<b>18</b>	13	11
Taxes						
Current	<b>191</b>	106	9	<b>7</b>	5	5
Future	<b>2</b>	(11)	(21)	-	-	-
	<b>193</b>	95	(12)	<b>7</b>	5	5
Net Income (Loss)	<b>310</b>	152	(21)	<b>11</b>	8	6
<b>Surplus (Deficit)</b>						
Unappropriated						
Balance, Beginning of Year	<b>157</b>	1	18	<b>44</b>	36	30
Change in Accounting Policy	<b>(24)</b>	(10)	(6)	-	-	-
Restated Balance, Beginning of Year	<b>133</b>	(9)	12	<b>44</b>	36	30
Transferred to Appropriated	<b>(358)</b>	(10)	-	-	-	-
Balance, End of Year	<b>85</b>	133	(9)	<b>55</b>	44	36
Appropriated						
Balance, Beginning of Year	<b>10</b>	-	-	-	-	-
Transferred from Unappropriated	<b>358</b>	10	-	-	-	-
Balance, End of Year	<b>368</b>	10	-	-	-	-
Total Surplus (Deficit), End of Year	<b>453</b>	143	(9)	<b>55</b>	44	36

## INSURANCE AND GUARANTEE FUNDS

### STATEMENT OF CASH FLOWS YEAR ENDED 31 DECEMBER

*in millions of dollars*

	Mortgage Insurance Fund			Mortgage-Backed Securities Guarantee Fund		
	1999	1998	1997	1999	1998	1997
<b>Cash Flows Provided by (Used in)</b>						
<b>Operating Activities</b>						
Premiums and Guarantee Fees Received	822	794	774	27	18	14
Application Fees Received	47	51	54	2	2	1
Investment Income Received	287	212	171	5	4	3
Net Claims	(280)	(289)	(374)	-	-	-
Government of Canada Fee	(35)	-	-	-	-	-
Operating Expenses Paid	(110)	(114)	(114)	(2)	(2)	(2)
Taxes Paid	(90)	(116)	(11)	(7)	(5)	(5)
Other	1	(34)	(29)	-	-	-
	642	504	471	25	17	11
<b>Cash Flows Provided by (Used in)</b>						
<b>Investment Activities</b>						
Investment in Securities						
Sales and Maturities	1 537	4 473	5 562	28	104	155
Purchases	(2 191)	(4 974)	(6 046)	(58)	(118)	(164)
	(654)	(501)	(484)	(30)	(14)	(9)
Increase (Decrease) in Due from (to) Corporate Account	(12)	3	(13)	(5)	3	2

### 13. ACTUARIAL VALUATION OF THE MORTGAGE INSURANCE FUND

#### A. Role of the Appointed Actuary

The actuary is appointed by the management of the Corporation. With respect to preparation of these statements, the actuary is required to carry out a valuation of the policy liabilities of the Mortgage Insurance Fund and to provide an opinion to the Corporation's management regarding their appropriateness at the valuation date. The factors and techniques used in the valuation are in accordance with accepted actuarial practice, applicable legislation and associated regulations. The scope of the valuation encompasses the policy liabilities that consist of a provision for claims on the expired portion of policies and of future obligations on the unexpired portion of policies. In performing the valuation of the liabilities for these contingent future events, which are by their very nature inherently variable, the actuary makes assumptions as to future claim rates, average loss on claims, trends, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies.

The valuation is based on projections of future losses on claims and related expenses. It is certain that the actual future claims will not develop exactly as projected and may in fact vary significantly from the projections. Further, the projections make no provision for new classes of claims categories not sufficiently recognized in the claims database.

## **B. Projection of September Valuation**

The actuarial valuation is produced as of 30 September each year. The Corporation determines provisions for claims and unearned premiums at 31 December using valuation factors taking into account new business, claims and interest for the last quarter.

## **C. Nature of Provision for Claims**

The establishment of the provision for claims for the Mortgage Insurance Fund is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process, influenced by a large variety of factors. These factors include the Corporation's past experience, historical trends in reporting patterns, level of outstanding claims in process, average claim rates (claim frequency), average loss on claims (claim severity) and recent past and projected economic conditions influencing immediate future claim levels.

Other factors include the continually evolving and changing underwriting and claim settlement procedures, actuarial studies, professional experience, the quality of data utilized for projection purposes, economic conditions and public attitudes. Consequently, the process of establishing the provision for claims necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

All provisions are periodically reviewed and evaluated in light of emerging claim experience and changing circumstances. The resulting changes in estimates of the ultimate liability are recorded as adjustments to provisions in the accounting period in which they are determined.

## **14. APPROPRIATIONS OF SURPLUS**

Following direction from Treasury Board, appropriations of surplus are made to establish additional policy reserves based on actuarial factors developed by the Office of the Superintendent of Financial Institutions, as well as for capitalization and potential claims in regard to contaminated lands.

## **15. INSURANCE AND GUARANTEES IN FORCE**

### **A. Mortgage Insurance Fund**

Under Section 11 of the *National Housing Act*, the aggregate outstanding amount of loan insurance policies may not exceed \$250 billion. At 31 December 1999, insurance policies in force totaled approximately \$187 billion (1998 - \$183 billion).

### **B. Mortgage-Backed Securities Guarantee Fund**

Under Section 15 of the *National Housing Act*, the aggregate outstanding amount of principal guarantees may not exceed \$250 billion. At 31 December 1999, guarantees in force totaled approximately \$28 billion (1998 - \$19 billion).

## **16. CASH AND INVESTMENT IN SECURITIES**

Cash and Investment in Securities for the Corporate Account is comprised of the following:

*in millions of dollars*

	<b>1999</b>	<b>1998</b>	<b>1997</b>
Cash and Cash Equivalents	<b>615</b>	320	418
Investment in Securities	<b>-</b>	219	111
Total	<b>615</b>	539	529

The following table shows the term to maturity of Investment in Securities for both the Corporate Account and the Insurance and Guarantee Funds. Amounts include accrued interest of \$60 million (1998 - \$82 million).

*in millions of dollars*

	<b>Within 1 Year</b>	<b>Term to Maturity 1 to 3 Years</b>	<b>3 to 5 Years</b>	<b>Over 5 Years</b>	<b>1999</b>	<b>1998</b>
<b>Corporate Account</b>						
Securities Issued or Guaranteed by:						
Canada	-	-	-	-	-	219
Other	-	-	-	-	-	-
Total	-	-	-	-	-	219
<b>Insurance and Guarantee Funds</b>						
Securities Issued or Guaranteed by:						
Canada	72	528	497	1 185	<b>2 282</b>	2 257
Provinces	14	177	128	568	<b>887</b>	609
Other	9	111	252	339	<b>711</b>	356
Total	95	816	877	2 092	<b>3 880</b>	3 222

Net cumulative unamortized losses of \$7 million (1998 - \$2 million gain) resulting from the sale of Corporate Account investments have been deferred and are included in Other Assets. The gains/losses result from those occasions where the Corporation may purchase or sell investments, for the purpose of hedging rate movements, when funding and lending activities do not coincide. Gains/losses are amortized over the term of the most recent debt issue.

Investment sales in the Insurance and Guarantee Funds during 1999 resulted in a gain of \$37 million (1998 - \$26 million, 1997 - \$10 million) that has been deferred. Cumulative deferred gains now totaling \$62 million (1998 - \$39 million) will be brought into income as follows:

*in millions of dollars*

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>Thereafter</b>	<b>Total</b>
Amortization of Net Gains	16	14	12	10	8	2	62

## 17. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value is derived from price movements in one or more underlying securities, indices or other instruments or derivatives. The Corporation uses derivatives in connection with its risk management activities.

Derivative contracts are used to adjust exposure to interest rate risk and foreign exchange risk by modifying the repricing or maturity characteristics of existing and/or anticipated assets and liabilities. These contracts can include:

- > Interest rate swaps to hedge mismatches in the timing of interest payments and receipts and/or to hedge reinvestment and refinancing risk.
- > Cross currency swaps to hedge foreign currency exposure arising from foreign denominated debt.

The table below provides the notional amounts of the Corporation's derivative transactions. Notional amounts, which are off-balance sheet, serve as a point of reference for calculating payments and do not represent the fair value, or the potential gain or loss associated with the credit or market risk of such instruments.

*Notional amounts of derivatives by term to maturity  
in millions of dollars*

	<b>Within 1 Year</b>	<b>1 to 3 Years</b>	<b>3 to 5 Years</b>	<b>Over 5 Years</b>	<b>1999</b>	<b>1998</b>
Interest Rate Swaps	3 255	3 415	6 249	173	<b>13 092</b>	11 688
Cross Currency Swaps	410	693	-	-	<b>1 103</b>	1 103
Total	3 665	4 108	6 249	173	<b>14 195</b>	12 791

## 18. MARKET RISK

Market risk refers to the risk of the Corporation incurring a financial loss as a result of adverse fluctuations in interest rates (interest rate risk) and/or foreign exchange rates (foreign exchange risk).

### Interest Rate Risk — Corporate Account

The table below provides details regarding the Corporation's exposure to interest rate risk. On and off-balance sheet financial instruments are reported based on the earlier of their contractual repricing dates or maturity dates. Effective interest rates have been disclosed where applicable. The effective rates shown represent historical rates for fixed rate instruments carried at amortized cost and rates to reset for floating rate instruments.

*Carrying amount by earlier of contractual repricing or maturity date  
in millions of dollars*

	Within 1 Year	1 to 5 Years	Over 5 Years	Non Interest Sensitive	1999	1998
<b>Corporate Account</b>						
<b>Assets</b>						
Loans and Investments	2 490	7 613	5 913	372	<b>16 388</b>	16 306
Effective Interest Rate	8.26%	6.25%	8.54%			
Cash and Investment in Securities	615	-	-	-	<b>615</b>	539
Effective Interest Rate	4.68%	-	-			
Securities Purchased Under Resale Agreements	373	-	-	-	<b>373</b>	214
Effective Interest Rate	6.04%	-	-			
<b>Liabilities</b>						
Capital Market Borrowings	3 647	7 257	-	54	<b>10 958</b>	10 673
Effective Interest Rate	6.40%	5.75%	-			
Borrowings from the Government of Canada	217	884	5 040	74	<b>6 215</b>	6 418
Effective Interest Rate	9.96%	8.45%	9.04%			
Securities Sold But Not Yet Purchased	374	-	-	-	<b>374</b>	-
Effective Interest Rate	6.06%	-	-			
Obligation Under Capital Lease	1	-	26	-	<b>27</b>	29
Effective Interest Rate	11.57%	-	11.77%			
Securities Sold Under Repurchase Agreements	-	-	-	-	-	214
Effective Interest Rate	-	-	-			
<b>Off-Balance Sheet</b>						
Derivative Financial Instruments						
Receivable Position	3 677	7 129	-	3 389	<b>14 195</b>	12 791
Effective Interest Rate	6.30%	5.81%	-			
Payable Position	3 965	6 841	-	3 389	<b>14 195</b>	12 791
Effective Interest Rate	6.72%	5.65%	-			

In 1991, the Corporation's right to prepayment without penalty on its borrowings from the Government of Canada was discontinued. These borrowings fund loans made by the Corporation under various sections of the *National Housing Act*, some of which have prepayment without penalty privileges and some of which have contractual repricing options. This transfer of interest rate risk exposed the Corporation to losses and continues to expose the Corporation to potential losses in future years which could be material in relation to the Corporate Account Reserve Fund.

### Prepayment Risk

Prepayment risk has been estimated for programs representing approximately 60% of the total loan portfolio and is under evaluation for the remainder. Although highly unlikely, based upon management's estimates and prevailing interest rates, the annual losses which could result from this transfer of interest rate risk is a maximum of \$15 million per annum over a 25 year time horizon. This risk is being mitigated by a short-term funding strategy and removal of prepayment optionality from some programs. Historical prepayment activities have been on a loan by loan basis. Since the funds received from these prepayments are utilized as part of corporate cash management, it is not reasonable to quantify the extent of prepayment losses in the current year.

### Refinance Risk

For those loans which have been previously renegotiated or repriced, the estimated average impact on interest margin is a \$25 million reduction per year (\$24 million for 1998) over a 38 year average horizon. Potential losses due to refinancing in future years are expected to be immaterial.

### Interest Rate Risk — Insurance and Guarantee Funds

The interest rate risk exposure of the investment portfolios of the Insurance and Guarantee Funds is managed in relation to the existing liability profile associated with each fund as well as by structuring the investment maturities of the portfolios similar to a diversified fixed income index.

The table below provides details regarding the Insurance and Guarantee Funds exposure to interest rate risk.

*Carrying amount by earlier of contractual repricing or maturity date  
in millions of dollars*

	Within 1 Year	1 to 5 Years	Over 5 Years	Non Interest Sensitive	1999	1998
<b>Insurance and Guarantee Funds</b>						
<b>Assets</b>						
Investment in Securities	95	1 693	2 092	-	<b>3 880</b>	3 222
Effective Interest Rate	6.09%	6.28%	6.56%			
Mortgages	4	-	-	-	<b>4</b>	15
Effective Interest Rate	8.56%	-	-			
Securities Purchased Under						
Resale Agreements	-	-	-	-	-	684
Effective Interest Rate	-	-	-			
<b>Liabilities</b>						
Securities Sold Under Repurchase Agreements	-	-	-	-	-	684
Effective Interest Rate	-	-	-			

## Foreign Exchange Risk

All currency exposure arising from foreign denominated debt issuance is hedged in accordance with the Corporation's policy to avoid any and all foreign exchange exposure.

## 19. CREDIT RISK

Credit risk is the risk of loss resulting from default by a counterparty, typically as a consequence of its insolvency. The Corporation incurs credit risk from its lending, investing and hedging activities. Credit exposure refers to fair value owed to the Corporation, plus an estimate for potential exposure where applicable.

### Investment in Securities

The Corporation mitigates its credit risk through the use of policies which include the diversification of its investment in securities and the establishment of counterparty credit limits against which positions are monitored on an ongoing basis. An independent credit risk management function exists and evaluates counterparties as to creditworthiness and compliance with exposure limits.

The table below shows the distribution of credit exposure. The exposure is divided into short-term (less than one year) and long-term (greater than one year). All of the short-term exposure, 100%, is rated 'R-1 high' or 'AAA' and the majority of long-term exposure, 87%, is to 'AAA' and 'AA' rated counterparties.

*Credit exposure  
in millions of dollars*

	<b>1999</b>	<b>1998</b>
Short-term	<b>645</b>	409
Long-term	<b>3 772</b>	3 595
Total	<b>4 417</b>	4 004

The Corporation's credit risk related to concentration of investments is diversified as follows:

*Credit exposure by sector breakdown  
in millions of dollars*

	<b>1999</b>	<b>1998</b>
Canada and Guaranteed	<b>2 455</b>	2 690
Provinces	<b>855</b>	645
Schedule A Banks	<b>134</b>	151
Other Banks and Financial Institutions	<b>73</b>	71
Commercial Institutions	<b>297</b>	77
Securitized Vehicles/Derivative Product Companies	<b>603</b>	370
Total	<b>4 417</b>	4 004

### Derivative Financial Instruments

The credit risk associated with derivatives is normally a fraction of the notional amount of the derivative instrument. For internal risk management purposes, the credit risk arising from a derivative transaction is considered to be the estimated fair value plus an estimate for potential exposure. The Corporation subjects its derivative related credit risks to the same policies that it uses for managing other transactions that create credit exposure including a diversification of its exposure across various financial institution counterparties.

The table below shows the credit exposure of the Corporation's derivatives by term to maturity.

*Credit exposure of derivatives by term to maturity  
in millions of dollars*

	<b>Within 1 Year</b>	<b>1 to 3 Years</b>	<b>3 to 5 Years</b>	<b>Over 5 Years</b>	<b>1999</b>	<b>1998</b>
Interest Rate Swaps	88	136	282	4	<b>510</b>	484
Cross Currency Swaps	98	178	-	-	<b>276</b>	420
Total	186	314	282	4	<b>786</b>	904

Where legally enforceable through contractual arrangements such as International Swaps and Derivatives Association master swap agreements, various transaction exposures to counterparties may be netted to derive the Corporation's overall net credit exposures to counterparties. The table below shows the Corporation's fair value of derivatives, before and after netting.

*Fair value of derivatives by counterparty credit rating  
in millions of dollars*

	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>1999</b>	<b>1998</b>
Fair Value before Impact of Netting	10	37	1	<b>48</b>	277
Impact of Netting	-	(17)	(1)	<b>(18)</b>	(10)
Fair Value after Impact of Netting	10	20	-	<b>30</b>	267

## 20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out below represent the fair values of on and off-balance sheet financial instruments of the Corporation using the valuation methods and assumptions as referred to below. Fair value amounts are designed to represent estimates of the amounts at which instruments could be exchanged in a current transaction between willing parties.

As many of the Corporation's financial instruments lack an available trading market, fair values are based on estimates using present value and other valuation techniques. These techniques are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Due to the use of subjective judgment and uncertainties, the fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

*in millions of dollars*

	1999		1998	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Corporate Account</b>				
<b>Assets</b>				
Loans and Investments	16 388	17 347	16 306	20 038
Cash and Investment in Securities	615	612	539	539
Securities Purchased Under Resale Agreements	373	373	214	214
Accounts Receivable	157	157	255	255
Deferred Recoveries from the Minister	40	40	151	151
<b>Liabilities</b>				
Capital Market Borrowings	10 958	10 769	10 673	10 820
Borrowings from the Government of Canada	6 215	7 651	6 418	8 554
Securities Sold But Not Yet Purchased	374	374	-	-
Accounts Payable and Accrued Liabilities	305	305	341	341
Obligation Under Capital Lease	27	43	29	44
Securities Sold Under Repurchase Agreements	-	-	214	214
<b>Off-Balance Sheet</b>				
Derivative Financial Instruments				
In a Net Receivable Position		48		277
In a Net Payable Position		139		26
<b>Insurance and Guarantee Funds</b>				
<b>Assets</b>				
Investment in Securities	3 880	3 806	3 222	3 471
Mortgages	4	4	15	14
Securities Purchased Under Resale Agreements	-	-	684	684
<b>Liabilities</b>				
Accounts Payable and Accrued Liabilities	53	53	70	70
Securities Sold Under Repurchase Agreements	-	-	684	684

The estimated fair values of the following financial instruments are equal to carrying values due to their short-term maturity:

**Corporate Account**

- Cash
- Securities Purchased Under Resale Agreements
- Accounts Receivable
- Deferred Recoveries from the Minister
- Capital Market Borrowings (Short-term)
- Securities Sold But Not Yet Purchased
- Accounts Payable and Accrued Liabilities
- Securities Sold Under Repurchase Agreements

**Insurance and Guarantee Funds**

- Securities Purchased Under Resale Agreements
- Accounts Payable and Accrued Liabilities
- Securities Sold Under Repurchase Agreements

Fair values of the following financial instruments are determined by reference to quoted market prices:

**Corporate Account**

- Investment in Securities
- Capital Market Borrowings (Medium-term)

**Insurance and Guarantee Funds**

- Investment in Securities

Fair values of the following financial instruments are estimated using net present value analysis:

**Corporate Account**

- Loans and Investments
- Borrowings from the Government of Canada
- Obligation Under Capital Lease
- Off-Balance Sheet Derivative Financial Instruments

**Insurance and Guarantee Funds**

- Mortgages

## 21. COMMITMENTS

### A. Loans and Investments

Commitments outstanding for Loans and Investments, net of forgiveness, amounted to \$64 million, at 31 December 1999 (1998 - \$26 million).

The majority (83%) of these outstanding commitments pertain to social housing loans which are normally advanced within a two-year period. These particular loans are disbursed at prevailing market interest rates and are subject to a five-year term.

### B. Operating Leases

Minimal rental payments scheduled over the next five years on business premises and equipment under long-term non-cancellable leases are:

*in millions of dollars*

	2000	2001	2002	2003	2004
Business Premises	8	5	4	3	4
Equipment	10	2	1	-	-
Total	18	7	5	3	4

Total operating lease commitments at the end of 1999 were \$37 million (1998- \$40 million).

### C. Future Contractual Obligations

Total contractual financial obligations for social housing programs under the Minister's Account extend for periods up to 38 years. Uncertainty in forecasting the economic factors used to calculate the financial obligations precludes reasonable estimation beyond five years.

Estimated obligations for the next five years are:

*in millions of dollars*

	2000	2001	2002	2003	2004
	1 705	1 737	1 724	1 722	1 716

## 22. CONTINGENT LIABILITIES

There were legal claims against the Corporate Account of \$1 million (1998 - \$1 million). There were other legal claims of \$1 million (1998 - \$1 million), which if successfully held against the Corporation, could result in charges to the Government of Canada through the Minister's Account. Legal claims of \$27 million (1998 - \$14 million) are pending against the Mortgage Insurance Fund. The Corporation continues discussions with Revenue Canada regarding unresolved tax items. Due to the uncertainty of the outcome of these events, no provision for loss has been made.

## 23. PENSION PLAN

The Corporation maintains an indexed, defined benefit pension plan. Retirement benefits are based on the average salary in any best five-year period and the number of years of service. The accrued pension benefits are determined using the projected benefits method prorated on service.

The Corporation's funding policy is to contribute the amount required to provide for current benefits attributed to service and to pay the unfunded pension plan liabilities over periods permitted by regulatory authorities.

Based on an actuarial valuation at 1 January 1998, and using management's best estimate, the status of the plan is:

*in millions of dollars*

	<b>1999</b>	<b>1998</b>
Net Assets Available for Benefits	<b>919</b>	855
Actuarial Value of Accrued Pension Benefits	<b>722</b>	702
Excess of Net Assets Over Actuarial Value of Accrued Pension Benefits	<b>197</b>	153

The pension expense (credit) amounts to \$(24) million in 1999 (1998 - \$7 million, 1997 - \$26 million).

Although the Pension Fund financial position is determined by an independent actuary, changes in future conditions in the near term could require a material change in the recognized amounts.

Under the *Income Tax Act Regulations*, once the excess net assets reaches a certain level, employers must suspend making payments to the Pension Fund (funding holiday). During this period, the asset is reduced by applying the employer current service cost.

## **24. RELATED PARTY TRANSACTIONS**

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with certain of these entities in the normal course of business. All material related party transactions are either disclosed below or in relevant notes.

Losses on loans and real estate, interest earnings, and the amortization of modernization and improvement expenditures, relating to certain Corporate Account assets, are recovered from the Government of Canada through the Minister's Account. The total of such recoveries, which are not considered subsidies to others, amounted to \$235 million (1998 - \$183 million, 1997 - \$243 million) of which \$51 million (1998 - \$67 million, 1997 - \$70 million) is included in Interest Earned in the Corporate Account.

The Corporation is required to make an annual fee payment from the Mortgage Insurance Fund to the Government of Canada. In 1999, \$24 million in fees was expensed (1998 - \$23 million, 1997 - \$12 million), and will be paid by 31 March 2000.

In accordance with a Memorandum of Understanding between the Corporation and Canada Lands Company Limited (CLC) signed in 1998, the Corporation transferred \$8 million worth of properties during the year (1998 - \$61 million). In exchange, the Corporation has received interest bearing promissory notes at 7.35%, due December 2006. The carrying cost of the properties transferred in 1999 was previously adjusted to market value and accordingly no gain or loss was recognized on the transaction with CLC this year.

The interest expense related to Borrowings from the Government of Canada was \$563 million (1998 - \$592 million).

## **25. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE**

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year:

Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Corporation, including those related to clients, suppliers, or other third parties, have been fully resolved.

## **26. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to the 1999 statement presentation.



TO ASSIST US IN BETTER SERVING OUR CLIENTS AND TO  
IMPROVE ON THE ANNUAL REPORT, PLEASE COMPLETE AND  
RETURN THE FOLLOWING SURVEY.

1. Please indicate the group(s) that you represent.

- ☐ Government (federal, provincial/territorial, municipal)  
☐ General public  
☐ Industry

☐ Media  
☐ Other; please specify \_\_\_\_\_  
\_\_\_\_\_

2. Please rate the Annual Report on the following using a 5 point scale (1=Very Good, 5=Very Poor).

Design	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Layout	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Readability	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

3. Do you feel that CMHC's role as Canada's national housing agency is clearly communicated?

☐ Yes ☐ No

4. What could we improve to make the Annual Report more  
relevant and to better communicate CMHC's role?

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**CANADA MORTGAGE AND HOUSING CORPORATION  
SOCIÉTÉ CANADIENNE D'HYPOTHÈQUES  
ET DE LOGEMENT**

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